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 5 of 15

(May 18, 1973)

Printed for the use of the Committee on Ways and Means

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TRADE REFORM

FRIDAY, MAY 18, 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. Al Ullman presiding.

Mr. ULLMAN. The committee will be in order.

Continuing on general testimony, our first witness today is Mr. Daniel L. Goldy, who is a member of the board of directors and International Committee of the U.S. Chamber of Commerce. He is accompanied by Peter Buck Feller and Joseph E. Tansill.

I want to say, for the benefit of the committee, our first witness, Dan Goldy, is a constituent of mine and a long-time friend.

He has had a distinguished career in both public service and in private business for many years and has been associated with the Department of the Interior, the Department of Labor, and Department of Commerce. In his capacity in the Department of Commerce, he was extremely active in the field of foreign trade.

I consider Mr. Goldy one of the foremost experts in this field. I know that his colleagues are equally qualified, we welcome you before the committee.

Mr. CONABLE. Mr. Chairman, will you yield to me for a moment? I think Mr. Goldy must be a constituent of yours by choice because his business is in Texas and he lives in Washington.

Mr. ULLMAN. That is exactly right—by choice.

STATEMENT OF DANIEL L. GOLDY, MEMBER OF THE BOARD OF DIRECTORS AND INTERNATIONAL COMMITTEE, CHAMBER OF COMMERCE OF THE UNITED STATES, ACCOMPANIED BY PETER BUCK FELLER, JOSEPH E. TANSILL, ANDREW A. MELGARD, AND L. OAKLEY JOHNSON

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

I am Daniel L. Goldy, president, International Systems and Controls Corp., Houston, Tex., and a member of the board of directors and International Committee of the Chamber of Commerce of the United States, on whose behalf I am appearing today. Accompanying me are Peter Buck Feller of the Washington, D.C., law firm of McClure and Trotter and a member of the Chamber's Special Panel on Foreign Trade Policy and Task Force on Trade Adjustment Assist-

ance; and Joseph E. Tansill, partner, Coopers and Lybrand of Chicago, and a member of the chamber's Taxation Committee.

In the interest of saving time so that we might move more quickly to questions which the members of this committee might have, I request your permission to have our prepared statement placed in the record in full and proceed to summarize the substance of that statement and to comment on a few of the basic issues which underlie the consideration of this bill.

Mr. ULLMAN. Without objection, your statement will appear in full in the record.

Mr. GOLDY. Thank you very much.

H.R. 6767 is considered at a time when the United States has been experiencing serious trade deficits; the major trading partners of the United States have agreed to negotiation of basic issues beginning in September of this year; the United States has devalued the dollar as a part of a general realignment of currency values; negotiations are under way for a major international monetary reform; and there is at long last an apparent willingness on the part of all concerned to review established policies and procedures in the light of changed world conditions and the new economic realities which the United States confronts around the world.

The two devaluations of the dollar, accompanied in some instances by revaluations of other currencies, has been a painful process. It is not pleasant to have to pay much more for the things one buys and get much less for the things one sells. It is worth the price, however, if we can utilize the realignment of currencies to restore our trade position from deficit to surplus. This is not likely to happen automatically. It will take a considerable amount of effort to translate the potential opportunities into actual exports.

The United States, therefore, has a special interest in seeking to eliminate barriers to trade which impede our quest for more exports at a time when the realignment of currencies puts us in a better position to penetrate these markets.

Stated another way, the Trade Reform Act of 1973 is an essential ingredient in making effective other steps already taken to put the United States in an improved competitive position with the rest of the world, but, like the realinement of currencies, it alone cannot be considered the total answer to the problem.

We support the objectives of H.R. 6767, although, as previously noted, we have some reservations about specific provisions and wish to offer some recommendations as to how they should be changed.

I should like now to proceed to comment on specific provisions of the bill, limiting my comments, however, to those situations where the chamber position is at variance with the administration's proposals.

Section 101, basic negotiating authority. We support basic authority for the President to enter into trade agreements aimed at lowering existing tariff levels. We believe it unnecessary for the President to have open-ended authority to raise tariffs in the course of negotiations. We recommend that the President's authority to raise tariffs under this section be limited to two clearly defined situations: 1; in the conversion of nontariff barriers into tariffs, and 2, in harmonizing the disparities in the tariff systems of the negotiating countries.

Section 103, nontariff barriers. While we support the general provisions of this section, we believe that policies or guidelines should be written into the legislation to define more clearly which agreements the President can execute on his own discretion and which he should subject to the 90-day congressional veto procedure. We do not oppose the arrangement whereby some agreements may be implemented immediately, but we believe that this category should be clearly spelled out.

We should like to observe at this point that, to be effective in eliminating nontariff barriers, efforts will have to be made to strengthen the GATT inventory process by which NTB's are identified and more formal international procedures will have to be established for mediating disputes arising from the nontariff barriers.

TITLE II, CHAPTER 1, IMPORT RELIEF

Sections 201–203. While supporting the proposals to liberalize the "escape clause" criteria, we are opposed to the provision that a finding of "market disruption" would constitute prima facie evidence that imports are a primary cause of injury.

With respect to the proposals in section 203, to negotiate orderly marketing agreements and suspend Tariff Items 806.30 and 807.00, we recommend that they be deleted.

CHAPTER 2, TRADE ADJUSTMENT ASSISTANCE

The chamber favors improved adjustment assistance for workers displaced as a result of import injury. We urge, however, that the adjustment assistance program retain coverage for individual firms and that this not be eliminated, as proposed in H.R. 6767.

In addition, we urge consideration of a program of community assistance, bearing in mind the successful community programs of the Office of Economic Adjustment of the Department of Defense.

Finally, we recommend the creation of a single agency to administer the adjustment assistance program.

TITLE III

Section 301, responses to unfair import restrictions. Section 301 of the bill brings some much needed attention to the persistent and frustrating problem of foreign import restrictions. Two proposals here deserve strong support; 1, the proposal to extend section 252 of the Trade Expansion Act of 1962 to cover retaliatory actions in industrial as well as agricultural products, and 2, the requested authority to retaliate against foreign export subsidies in third country markets.

Two modifications are recommended, however. Retaliation against foreign export subsidies, for example, should, whenever possible, be in the same product sector or industry as that in which the foreign country subsidizes.

Further, when action is contemplated under this section, hearings should be held prior to any decision.

Section 310, amendments to the antidumping act of 1921. We support the administration's proposals on the Antidumping Act. We would point out, however, that the proposed provision for judicial

review in antidumping cases as described in the section-by-section analysis is not included in the legislative language. We urge the committee to correct this.

Section 330. countervailing duties. We urge the committee to add a provision for judicial review for complainants so that they have the same rights as importers in this regard.

We note that H.R. 6767 proposes to give the Secretary of the Treasury discretion as to whether or not to take action after there has been a finding that countervailing duties can and should be imposed. This discretion would allow him not to impose the countervailing duties if he deemed it to the detriment of the economic interests of the United States.

We believe that it would be better for the Secretary not to have this discretion so that all parties will know that U.S. domestic producers can obtain some sort of relief through this method if there has been subsidization of exports to the United States regardless of the political considerations involved in our relationships with the exporting country.

With respect to the proposal for a 12-month time limit on the determination of countervailing duty cases, we suggest that this should be the same as for antidumping cases—6 months, or 9 months for complicated cases.

Section 350, unfair practices in import trade. We recommend that this section be amended to provide alternative remedies with discretionary authority only as to the form of remedy employed, not to provide discretionary authority as to whether remedial action, as recommended by the FTC, should be allowed.

TITLE IV, INTERNATIONAL TRADE POLICY MANAGEMENT

The chamber supports the proposals of this with two qualifications.

Section 401, balance of payments authority. The chamber opposes this section. We believe that the other provisions of this bill, in addition to existing authorities under the GATT and other sections of U.S. law, provide sufficient muscle to obtain satisfaction in disputes with our trading partners.

Moreover, we believe that actions taken should not be in violation of GATT rules; and there is reason to hope that, out of the current monetary negotiations agreements will emerge on internationally agreed-upon procedures for making balance of payments adjustments.

Section 402, withdrawal of concessions. We recommend a provision for mandatory public hearings in advance of any presidential action under this section rather than the ex post facto hearings proposed by the administration.

TITLE V. TRADE RELATIONS WITH COUNTRIES NOT ENJOYING MOST-FAVORED-NATION STATUS

The chamber supports all sections of this title. The only modification suggested is that an escape clause should be a compulsory rather than an optional element of commercial agreements entered under this title.

TITLE VI, GENERALIZED SYSTEM OF PREFERENCES

The chamber supports the sections under this title, but we suggest that, pending implementation, the tariffs applicable to Philippine imports under the Laurel-Langley agreement be temporarily extended to avoid undue disruption.

ASSOCIATED ISSUES

Our statement includes chamber positions on issues not specifically covered in the administration bill but which nevertheless relate to it. For instance, we refer to the need for legislative action to facilitate social security totalization agreements with other countries. This is aimed at reducing what is, in effect, a double taxation of Americans working abroad.

With respect to the taxation recommendations submitted by the administration to this committee, our position can be briefly summarized. As a general principle, we urge that tax reform as it relates to U.S. foreign investment be considered in the context of overall tax policy and not in conjunction with or as part of the Trade Reform Act. The tax reform testimony presented to this committee by the chamber on March 8, this year, makes our position clear.

Wih respect to the specific recommendations submitted by the administration, we reiterate our support for existing law and our opposition to any repeal or modification of the foreign tax credit.

If it can be shown that abuses do exist under existing law, we would certainly support appropriate measures to correct them.

No other major industrial country taxes the unremitted earnings of the foreign subsidiaries of its domestic corporations on a current basis. Current taxation by the United States would therefore place U.S. companies operating abroad at a serious competitive disadvantage.

We urge this committee to lend its support in maintaining a taxation policy which ensures that no more restrictions are placed upon American investors abroad than are placed on our competitors.

I would like now to address myself to the basic issues which underlie the debate over foreign economic policy. There are those who believe that we must reverse the basic policies towards freer trade that have served the world so well since the end of World War II, turn ourselves inward, protect our domestic market by keeping foreigners out, and curtail our trade with the rest of the world. Such a course would strike a blow against world prosperity; but, to the United States, it would be an absolute disaster.

The unstated assumption of the protectionists is that the United States can be reasonably self-sufficient and thereby shield itself from the forces of economic competition. Nothing could be further from the truth. With only 7 percent of the world's population but with an annual consumption appetite of more than one-third of the world's raw material resources, the United States is rapidly becoming a have-not nation.

It was said of other developed nations that they had to export to live, and they developed the sophisticated techniques to do just that.

We prided ourselves, unfortunately, on the notion that we did not have to use such methods and could do very well on our own resources and production.

One need only look at the energy picture to know how reliant we are becoming on imports. And those imports must be paid for with exports or other overseas earnings. The United States will be relying increasingly on imports to meet its raw materials needs, and it will find itself in ever-greater competition with the other developed countries for the sources of these materials and for the markets for U.S. goods so as to finance them.

There is, therefore, no alternative to the United States leading the way towards freer international trade nor to our becoming fully competitive in the quest for world markets.

The questions then become: "Can we compete in the world marketplace? Can we move towards freer trade and maintain full employment at home?" My answer to both is an emphatic yes.

Taking the last question first, there is no evidence that the overall employment levels in the United States are related to our success or failure in international trade. Rather they appear to be related to economic policies pursued domestically to stimulate or restrain the economy, depending on the President's notion of what is needed to deal with inflation or the Nation's economic performance. This is demonstrated by the fact that employment has risen and unemployment has declined during periods when we have been accumulating trade deficits.

This is not to say there is no problem of individuals and firms adjusting to the impacts of foreign trade on the domestic economy. But, in our relatively free market economy, there is a constant problem of adjusting to economic change from shifts in technology, habits, and styles.

What we have been witnessing in the past four years is the exacerbation of public irritations with economic dislocations that are trade-related because there has been slack in our economy and the basic unemployment rates have been too high. This makes it much more difficult for the normal adjustment processes to occur.

The solution, however, is not to try to shut off foreign trade but to create within the United States the conditions conducive to full employment. And, as we have already said, more liberal trade adjustment assistance measures should be provided.

The question of whether we can compete for world markets under current conditions is a more complicated question. Clearly, the United States has the technological and management capabilities, it has a highly skilled labor force, and it has the potential economies of scale.

What has been lacking is the organization and mobilization of our resources for the task, and the result is a confusion about goals and methods. We have not seen clearly that the name of the game is obtaining and then maintaining market position abroad and that, to accomplish this, investment is not an alternative to exporting but merely the opposite side of the coin. Thus, we have put curbs on foreign direct investment without appreciating that we were thereby reducing our rate of growth of exports.

There has not been a full appreciation of the importance of our financial resources in the competition for world markets, and so the Export-Import—Eximbank was slow to provide facilities and services

comparable to those offered by the other developed countries to their exporters. Much progress has been made in the past 2 years to make the Eximbank fully competitive with those abroad, but we still do not have a rediscount system comparable to those available to our competitors.

We have been slow to recognize the critical importance of maintaining reasonable wage and price stability in the United States so as to compete for foreign markets. And, while this relationship is now appreciated, there is still an alarming gap between rhetoric and performance.

There is a strong tradition in the United States of mutual distrust between Government and business. Increasingly, we are competing for world markets against businesses supported so intimately by their governments that it is sometimes difficult to know where one leaves off and the other begins. In some cases, governments share ownership of businesses with the private sector, so that they compete like private business but have the full backing and support of the government.

What is needed in the United States is a more effective and closer relationship between government and business, particularly as to information about foreign opportunities and what it takes to achieve them. Lacking such relationships, trade negotiations can be less then fully effective.

To achieve the closer relationships required by current world conditions the various functions relating to trade and foreign economic policy now scattered among many departments and agencies of government must be pulled together and coordinated so that a businessman does not have to run all over Washington to find someone who can understand and respond to his problem.

The creation of the Council on International Economic Policy was an important step in the right direction. But its function ought to be to coordinate policy between the claimants for U. S. commercial interests, its political interests, and its national security and defense interests. There is still no voice in the Council that speaks effectively for the commercial interests.

Finally, the confusion is such that attacks have been mounted on the multinational corporations of the United States—not for specific, isolated acts which may or may not be properly subject to criticism but rather in a broadside manner as though their very existence was contrary to sound public policy.

Actually, the MNC's are the most effective instrumentalities yet devised for obtaining and maintaining market positions abroad, which should after all be our objective. For those who are willing to look objectively at the facts, the MNC's have turned in increasing trade surpluses as contrasted with the non-MNC's, they have increased their domestic U.S. employment at a higher rate than the non-MNC's, and they have consistently turned in favorable performances with respect to balance of payments.

Indeed, the growing effectiveness of our foreign competitors stems from the increasing numbers and size of their multinational corporations. I need only cite the trading companies of Japan, which have been key factors in producing the incredible feats of market penetration and trade surplus accumulation that has made Japan into a super economic power.

The measures that have been proposed to curb the activities of U.S. MNC's—such as revision of present foreign tax credit treatment—will, if enacted, serve as indirect subsidies to the MNC's of Japan and Europe, who are only too eager to pick up any markets in which the U. S. companies may falter.

In sum, then, it is our view that, given the right tools, backing, and economic climate, the U.S. business community can get on with the job of restoring our trade surpluses. We can compete for foreign markets if they can be priced open with the authorities conferred by H.R. 6767. And it is in the best interests of every American citizen that this job be done. Thank you.

[The prepared statement follows:]

STATEMENT OF DANIEL L. GOLDY, CHAMBER OF COMMERCE OF THE UNITED STATES

I am Daniel L. Goldy, President, International Systems and Controls Corporation, Houston, Texas, and a member of the Board of Directors and International Committee of the Chamber of Commerce of the United States on whose behalf I am appearing today. Accompanying me are Peter Buck Feller of the Washington, D.C., law firm of McClure and Trotter and a member of the Chamber's Special Panel on Foreign Trade Policy and Task Force on Trade Adjustment Assistance; and Joseph E. Tansill, Partner, Coopers and Lybrand in Chicago, and a member of the Chamber's Taxation Committee.

The National Chamber, representing over 45,000 firms, 2600 local and state chambers of commerce, and 1100 trade associations, is testifying in general support of the Trade Reform Act of 1973, H.R. 6767. We have a number of recommendations aimed at providing, in appropriate instances, adequate procedural safeguards and established guidelines.

We have long believed that a freer movement of goods and services is clearly in the United States' national interest. We realize, nonetheless, that the United States does not live in a vacuum. To derive the benefits from freer trade, other countries must be as receptive and open as we have been. Unfortunately, in recent years, other major trading nations have not followed the American lead. They have not granted to our goods the same equitable access to their markets as we have given their goods here.

The urge to pull back and build walls around this country is as great now as it has ever been. Nonetheless, the United States in both its world role of leadership and in pursuit of an enlightened self-interest has special responsibilities to set the climate of opportunity and equity in world trade arrangements. This important goal can be accomplished only through wide-ranging, multilateral negotiations aimed at the creation of a reciprocal world trading system based on the sound principles of freer trade.

It is in this spirit that we make specific comments on the Trade Reform Act of 1973, H.R. 6767, and associated issues.

TITLE I: AUTHORITY FOR NEW NEGOTIATIONS

Section 101: Basic negotiating authority

We support basic authority for the President to enter into trade agreements aimed at lowering existing tariff levels. The successive lowering of tariffs through negotiation has been primarily responsible for the unprecedented growth in world trade—and attendant prosperity. We expect that a further lowering of tariff levels would act to stimulate even more this beneficial process of international commerce. The level of trade is such that we have reached a point of international economic interdependence. While this interdependence is both politically and economically desirable, it can sometimes cause dislocations. These are, in the aggregate, minor and can be resolved through specific programs and policies.

Hence, in the negotiation framework, we support the authority to *lower* tariff levels. We believe it unnecessary for the President to have open-ended authority to raise tariff in the course of negotiation. The President would be given the power, in other parts of the proposed legislation, to raise tariffs as a form of import relief or as a means of retaliation against foreign restrictions. This authority we support. Any use of tariff raising authority in negotiations, however, should be limited to two specific cases: (1) *Conversion of Non-Tariff Barriers*

(*NTB*) *into Tariffs.* The Chamber considers tariffs as a form of protection preferable to NTB's (especially quotas) since tariffs allow the continued operation of the market mechanism. (2) *Harmonization of Disparities in the Tariff Systems of the Negotiating Countries.*

We ,therefore, recommend to the committee that the proposed open-ended authority to raise tariff levels be restricted to the above two cases.

Section 103: Non-tariff barriers

We support, in substance, the need to remove non-tariff distortions to foreign trade. As tariff levels have become lower due to the trade agreements program initiated in 1934, non-tariff barriers, in many forms, have come to play an increasingly larger role in preventing American products from entering foreign markets. Diminishing NTB's in all segments of foreign commerce, agricultural as well as industrial, is a prime prerequisite to the conclusion of a successful negotiation.

We support Presidential discretionary authority to implement (under Subsection C) negotiated agreements in regard to reducing barriers resulting from methods of customs valuation, establishing quantities on which assessments are made, and requirements for marking country of origin.

The committee should examine one procedural question very closely. Under the proposed legislation, the President would be empowered to negotiate agreements on NTB's, but submit only those he "deemed necessary" to the ninety-day Congressional veto procedure. We do not oppose the arrangement whereby some agreements are implemented immediately (as in Subsection C), while others are to be submitted to the Congress. We are concerned, however, that there is no clear delineation of the criteria to be used in determining which route will be followed. We, therefore, urge the committee to consider defining these criteria.

These NTB proposals are an essential first step in reducing harmful distortions. But, there is little recognition that more than a first step is required. Since NTB's are often the result of domestic legislation having no basis in foreign trade, constant vigilance is necessary to prevent NTB proliferation. Two basic elements are required to accomplish this: (1) A further strengthening of the GATT "inventory" process which has already identified 27 major categories of NTB's. (2) Formalization of procedures for mediation of disputes arising from NTB's.

TITLE II: RELIEF FROM DISRUPTIONS CAUSED BY FAIR COMPETITION

Sections 201–203: Import relief

We support the President's proposals to liberalize the "escape clause" criteria. Under current law, petitioners for relief are required to prove to the Tariff Commission that increased imports were the major cause of injury—i.e., greater than all other causes—and that such increased imports were a result, in major part, of past tariff concessions. The proposed new criteria, i.e., that imports need only be the primary cause of injury, and severing of the link to past tariff concessions are changes which should insure fair and adequate consideration of all petitions.

We are opposed to the procedure outlined in Section 201(b)(5), whereby a Tariff Commission finding of serious injury or threat thereof, along with a finding of market disruption (as defined in Section 201(f)(2)), would constitute *prima facie* evidence that imports were the primary cause of injury. Liberalization of the currently tight criteria should not mean doing away with standards altogether. After too long a period of tilting the scales against providing relief, we must now be very careful that we do not go too far in tilting them the other way. If this *prima facie* test were to become law, petitioners could quite possibly receive relief on the basis of a mere coincidence. In accordance with the general principle of U.S. law, the burden of proof should be on the petitioner to meet certain standards as prescribed by law. Market disruption should be *one* of those standards, but most certainly not the only one.

By basing import relief on a coincidence, we risk opening a "Pandora's box" for misuse of the "escape clause." Such misuse could result in changing the structure of the American economy by making it less competitive, provoking retaliation, and hampering adjustment to new technology both here and abroad. We urge the committee to delete the *prima facie* aspect of the proposed escape clause criteria.

After the President has received a Tariff Commission report, he may, under the proposed Section 202, provide either import relief or direct the Secretary of Labor to consider adjustment assistance for affected workers. He would no

longer have the option of providing such assistance to individual firms. We find this change undesirable, since the President would have no viable, limited alternative to the internationally restrictive options presented under Section 203. While this matter will be further addressed in regard to adjustment assistance, we want to draw the committee's attention at this juncture to the alarming lack of Presidential flexibility under Section 202.

In Section 203, two new types of import relief are proposed—negotiation of orderly marketing agreements and selective suspension of 806.30 and 807.00, Tariff Schedules of the United States, operations. These new types of relief seem to us another case where we might tilt the scales too far one way. The difficulty with the escape clause has been the criteria, not the lack of forms of relief. We are alarmed that these proposals would take away a known and effective form of relief, adjustment assistance for affected business firms, and replace it with two new Presidential options which, if implemented, could be seriously detrimental to our international economic position. We, therefore, oppose the orderly marketing agreements and selective suspension of 806.30 and 807.00 operations as unnecessary new forms of import relief.

Two points need to be made in reference to 806.30 and 807.00 operations: (1) by facilitating the sequential production process, whereby parts are manufactured in the United States and sent abroad for assembly of further processing, items 806.30 and 807.00 allow American industry to reduce production costs and, therefore, the final price of its products sold in the United States. A primary effect of these tariff items is to reduce domestic inflation. (2) Some people charge that these tariff items provide an incentive for U.S. industry to export jobs by carrying out the labor intensive portion of their manufacturing overseas. But, they fail to take into account that, without the ability to reduce costs through duty-free importation of American components, the affected industries would be even less competitive, both domestically and internationally, in labor intensive products. Thus, the effect of suspension or elimination of 806.30 and 807.00 would most likely be to reduce U.S. exports of materials and components and to reduce U.S. employment related to those products.

The Tariff Commission made a thorough investigation of these items in 1969. While their use has undoubtedly increased since then, there is no evidence to suggest that the findings of that study would not be reaffirmed in today's world. If 806.30 and 807.00 were eliminated, the Tariff Commission estimates an annual deterioration in our balance of trade of $150–$200 million.

On the employment side, foreign assembly operations utilizing these provisions employed approximately 121,000 workers in 1969. In the United States, 37,000 jobs were directly dependent on these operations. If 806.30 and 807.00 operations were terminated, only a small portion of foreign employment would be "returned" to the United States. The report concluded that the employment effect would be negative since the larger loss in American jobs directly dependent on these operations would more than offset the small gain of "returned employment."

A group of businessmen concerned with this problem as it relates to the Mexican Border Industrialization Program, recently circulated a questionnaire to forty small-to-medium sized firms utilizing either 806.30 and 807.00 in Mexico. Seventy-six percent of the respondents stated that 806.30 and 807.00 were *extremely important* to their border operations and 85% of the companies estimated losses in domestic and/or foreign sales ranging from 5% to 95% would result from suspension of these items. In gross terms, this varied from $50,000 to $150 million. Additionally, 80% estimated total decreases in the purchases of U.S. materials and supplied amounting to $33 million.

On the U.S. employment impact, 75% stated that there would be a loss in domestic employment by as much as 50% to 100%, should 806.30 and 807.00 operations be terminated.

Finally, and perhaps most importantly, when asked to determine what operational alternative each company would consider should 806.30 and 807.00 be eliminated, 42% indicated that they would purchase all their material from foreign sources for their Mexican plant, instead of from U.S. sources. Others indicated that they would move the U.S. portion of their operations to a foreign country, discontinue their present product line, or decrease employment of American labor.

This survey is cited to emphasize the small, but important, role these tariff items play in reducing domestic inflation and in providing an opportunity to maintain a domestic market position which otherwise would be lost. All the information available indicates that elimination or suspension would result in a significant net loss in American exports and jobs.

Sections 221–246: Trade adjustment assistance

Believing adjustment assistance is necessary for firms, workers and communities injuriously dislocated by import, we have developed a detailed set of recommendations on this subject which is included in the Appendix to this statement for the committee's consideration. We will, at this point, briefly review the compelling rationale for an adjustment assistance program and our general thoughts on the Administration's proposals in this area.

The unprecedented prosperity of the past decade has exerted enormous pressures on most developed nations to follow policies aimed at full employment. As a result, governments often seek "temporary" expedients to protect domestic jobs from dislocation. In foreign trade, these expedients often take the form of tariffs, quotas and non-tariff barriers. Unfortunately, such measures rarely benefit economies in the long run. Successful adjustment to competition is postponed, leading to more serious dislocations at a later date.

The problem is exacerbated by our sensitivity to the economic policies of our major trading partners. The domestic economy cannot be insulated from the fluctuations of the foreign trade sector. This, and the need to avoid such expedient policies which can cause enormous difficulties in an interdependent world, makes plain the need for a viable program of economic adjustment.

One of the effects of foreign trade is to shift resources from economic activities in which the United States is relatively less efficient to economic activities in which we are more efficient. As a result, we incur a certain amount of adjustment. Very simply then, when the United States adopts a policy which involves some anticipated needs for adjustment, it necessarily and rightly adopts policies to ease those adjustment burdens and to move those people into other employment that contributes to the national well-being. This is a process which should be encouraged, not impeded by the expedients referred to.

In specific regard to the President's proposals:

(1) *Workers.*—For many years we have urged that any cash compensation to trade-displaced workers be administered and financed by the states through their state unemployment compensation programs with the eligibility and the benefit amounts and durations being provided in the state system. We continue in this belief and urge your support.

(2) *Firms.*—We oppose the Administration's decision not to recommend an extension or continuation of the firm adjustment assistance program. While management itself should respond to company dislocations from imports, there *is* a logical place for adjustment assistance to firms on a limited basis. In terms of dealing with foreign trade-generated dislocations, it would be unwise to put the President in the position of having a choice between (a) doing nothing; and (b) taking precipitate action that would have wide-ranging, deleterious effects on the economy.

(3) *Communities.*—We urge consideration of a program of Community Assistance using the successful example of the Office of Economic Adjustment, Department of Defense which has been instrumental in facilitating the adjustment of 160 large and small communites impacted by changes in defense spending. The primary thrust of this effort has been to help affected areas mobilize their own resources effectively, thereby attracting private resources from outside the area to aid the adjustment.

(4) *Program administration.*—We recommend the creation of a single agency to administer the adjustment program. It would be responsible for government participation in a system of early warning, economic analysis, eligibility findings, packaging of appropriate benefits, evaluation, publicity of results and accountability to the President and Congress.

While these issues and others are treated in greater depth in our Appendix, we have sought to highlight the most important. Adjustment assistance can work well in facilitating the effective adjustment of communities, firms and workers. We caution, however, that it should not be regarded as a panacea for the various types of economic dislocation that may result from the natural flow of foreign trade. Nonetheless, in a world so economically interdependent, sound and rational approaches to limited adjustment programs are required.

TITLE III: RELIEF FROM UNFAIR TRADE PRACTICES

Section 301: Responses to Unfair Import Restrictions

This section, which expands Presidential authority to retaliate against foreign import restrictions, includes these two very desirable changes:

(1) Under Section 252 of the Trade Expansion Act of 1962, the President had the authority to retaliate against foreign import restrictions only in the agri-

cultural sector. Section 301 expands his authority to industrial goods—an especially important modification in giving the President fullest flexibility.

(2) The proposed authority to retaliate agains tforeign export subsidies in third country markets is a sorely needed addition to the trade policy arsenal of the United States.

While we support both of these changes and the section generally, we suggest two modifications. First, retaliation against foreign export subsidies should, whenever possible, be in the same product-sector or industry as the foreign country subsidizes.

Second, whenever the President contemplates action under this section, hearings should be required *prior* to any decision. This procedure would allow all interested parties to present their cases in advance of Presidential action, thereby increasing the effectiveness and insuring the total fairness of any decision under Section 307.

The remainder of Title III deals with foreign unfair trade practices which adversely affect the ability of American producers to compete with imported products on equal terms in the domestic market. This title would amend a number of provisions which have long been part of American trade law. The purpose of those provisions is to protect the American producer against such unfair practices as dumping, export subsidies, patent infringement, and cartelization. Since our courts cannot obtain jurisdiction over foreign entities engaged in such unfair trade practices, the legal remedy instead applies directly to the imported merchandise. Nevertheless, the American producer is the real party in interest and should be entitled to a remedy where he has suffered a legal wrong. Furthermore, business requires certainty in the rules governing foreign trade, as it does in other types of commercial relationships. Our recommendations on the remainder of the title are directed toward minimizing the possibility of arbitrary administrative action.

Section 310: Amendments to the Antidumping Act of 1921

One unfair method of competition, known generally as dumping, involves international price disrcimination which causes injury to a U.S. industry. This section would amend the Antidumping Act by setting time limits on the processing of dumping cases and by providng for public hearings. We support these steps as consistent with the procedural safeguards required to insure against arbitrary or needlessly prolonged administrative action.

Further, although the official section-by-section analysis refers to a provision for judicial review in antidumping cases, no such provision is included in the legislative language. We urge the committee to correct this oversight.

Section 330: Countervailing duties

Another unfair method of competition is the foreign subsidization of products sold in the U.S. market. The Countervailing Duty Law is designed to offset this artifical advantage by requiring the imposition of an additional duty equal to the amount of subsidy. This section would amend the Countervailing Duty Law by imposing time limits on the processing of cases, a modification the National Chamber has long supported and advocated. We are, however, disturbed that the bill fails to provide judicial review for complainants—the same right now enjoyed by importers in such cases. We rcommend that the committee provide for judicial review, consistent with a reasonable procedural framework.

A 12-month time limit is proposed on determination of countervailing duty cases by the Secretary of the Treasury. While we are in agreement with the need for time limits, we believe that 12 months may be somewhat lengthy. We suggest that the time limits in countervailing duty cases be parallel to those proposed for antidumping, 6 months, and 9 months for complicated cases.

Section 350: Unfair practices in import trade

Under Section 337 of the Tariff Act of 1930, the Tariff Commission has the responsibility for investigating claims of unfair methods of competion in import trade, including patent infringement complaints. After an affirmative Commission finding, the President is empowered to exclude the products from entry into the United States until the offending practice ceases. This section would amend the provision to confine Tariff Commission responsibility to patent infringement cases. Other unfair methods of competition cases would be transferred to the Federal Trade Commission. However, the Secretary of the Treasury would review all affirmative findings and could rule out any remedial action.

If an unfair trade practice is found to exist which adversely affects a U.S. company, the injured party should be entitled to some kind of redress. It seems unjust to provide for discretionary denial after an affirmative FTC finding. On the other hand, we can understand instances where total exclusion of the competing import might be too harsh a manner in which to deal with the problem. We therefore recommend that, rather than making the availability of any remedy discretionary (as proposed), the law provides a wide range of alternative remedies (up to and including total exclusion of the products) and provide discretion only as to form of remedy.

TITLE IV: INTERNATIONAL TRADE POLICY MANAGEMENT

Economic interdependence has greatly increased the difficulties facing policymakers in the international economic area. The framework of past trade agreements legislation is often no longer responsive to problems that can arise, almost on a daily basis, in an expanding world economy. Most of the authorities proposed under this title, be they revisions of earlier acts or totally new, will allow the United States new and needed flexibility. We support these authorities with the following two qualifications.

Section 401: Balance of payments authority

This section would authorize the President to impose a temporary import surcharge and/or temporary quantitative limitations on imports in the case of serious balance of payments deficits. He would be given full power to determine how long the "temporary" measures would be applied, to which countries, and on which products.

We oppose this section as it relates to import surcharges generally and to any import restriction taken in a selective manner for three reasons:

First, the President has sufficient power to act in times of balance of payments crises, such as when he acted unilaterally in August, 1971 under the "Emergency Powers." Most recently, in the case of the second dollar devaluation, he was able to act multilaterally.

Second, American and foreign experience with import surcharges for balance of payments purposes has shown them to be largely ineffective.

Last, and most important, the granting and usage of this authority in regard to selective surcharges would, at this time, violate our international obligations in two important areas under the General Agreement on Tariffs and Trade (GATT), as follows: (1) Actions which can be taken for reasons of balance of payments do not include a surcharge. (2) Any allowable action is required, in addition, to be on an MFN basis, with no discrimination as to country or product.

We realize that monetary reform is a matter under current negotiation and our opposition now should in no way prejudice our position when those negotiations are concluded. In the meantime, it is not good national policy for the Congress to act on a sensitive subject undergoing international negotiation.

Section 402: Withdrawal of concessions

This section provides Presidential authority to withdraw, suspend, or terminate trade agreements concessions. In line with sound procedural safeguards, there should be mandatory hearings in advance of any Presidential action. We, therefore, urge the committee to so provide, under Section 402 and 410 (Public Hearings), rather than the optional *ex post facto* hearing presently proposed.

TITLE V: TRADE RELATIONS WITH COUNTRIES NOT ENJOYING MOST-FAVORED-NATION TARIFF TREATMENT

The Chamber supports the six sections under this title of H.R. 6767 which, *inter alia*, would authorize the President to extend most-favored-nation (MFN) tariff treatment to the Union of Soviet Socialist Republics and other centrally planned nonmarket economies, except Poland and Yugoslavia which already enjoy such treatment.

The only modification we suggest is that an escape clause should be a mandatory, rather than an optional, element of commercial agreements negotiated by the United States under this title. Therefore, we recommend that Section 503(a)(1) be included under Section 502.

It is clear to us that the policy of excluding Communist nations from most-favored-nation treatment has outlived its usefulness.

In the first place, the absence of trade between the United States on the one hand, and the Soviet Union and East European countries on the other, has in no way prevented these countries from developing mutually beneficial trade relations with all of America's major trading partners—where they have obtained the same products and services they could have obtained from the United States. Thus, the effect of U.S. policies to date has served only to bar American participation in their growing markets.

In the second place, times have changed. An indication of current American perceptions of Eastern Europe is reflected in the results of an opinion poll we conducted in April 1972. The Chamber's membership was asked:

"Do you approve of expanding trade in nonstrategic materials with East European countries?"

Of the 12,702 responses (25% of the membership), 83% said "Yes," 11% "No," and 6% had "No Opinion." In our support of Title V of H.R. 6767, we would stress the statistical importance of these results.

Extension of MFN to the Soviet Union is the key to implementing the U.S.-Soviet trade agreements negotiated last fall. These agreements can result in mutually beneficial economic relations.

In connection with the extension of MFN to the Soviet Union, we would call the committee's attention to the recent decision by the government of the Soviet Union to suspend the application of its controversial exit tax and to permit a freer flow of emigration from the USSR.

It is only by terminating discriminatory policies on both sides that the psychological environment necessary to induce closer economic relations can be created. Improved economic relations can result in improved political relations. Both are essential to world peace and security.

Notwithstanding the issue of MFN for the Soviet Union, the President should, in any case, be granted the necessary authority to extend MFN treatment to other East European countries.

Most of these countries have shown a positive desire to improve and expand their economic relations with the United States. A freer two-way flow of goods, services and capital is in everyone's interest. Further, it is unjust to allow these countries to be deprived of opportunities to expand their economic relations with the United States as a result of temporary differences that may exist between the United States and the Soviet Union.

While the potential economic benefits of increased trade are clear to both sides, and they have been documented before this committee in these and previous hearings, we believe that a few facts bear repeating.

These countries have the potential to become important markets for both U.S. agricultural and industrial goods. The Soviet Union and Eastern Europe as a region, in fact, are the only group of countries with which the United States enjoys a trade surplus. The United States has trade deficits with Japan, Canada, the European community and the developing world. Moreover, future U.S. needs for energy fuels and a variety of other natural resources will, by all accounts, continue to grow. The Soviet Union particularly, with its abundant energy reserves and natural resources, can play an important part in helping satisfy these needs.

Further, in order for the Soviet Union and other East European countries to earn the foreign exchange necessary to buy from the United States, they must be able to sell their goods in this country. The denial of MFN is a formidable barrier against goods made in the USSR and East European countries. The result is, in some instances, tariff rates 14 times higher than those levied on the goods of countries which enjoy MFN treatment.

In the final analysis, our challenge will not be to prevent a saturation of our markets by Soviet and East European made goods, but rather to buy a sufficient volume of their goods to make a viable economic relationship possible.

TITLE VI: GENERALIZED SYSTEM OF PREFERENCES

The National Chamber has, since 1967, supported the establishment of a system of generalized preferences to the exports of manufactured, semi-manufactured, and other selected products of developing nations. Prompt enactment of a preference system, as recommended in H.R. 6767, is long overdue.

The extension of such preferences to the less developed countries (LDC's) should spur the growth of their economies. It will encourage the emergent trend in LDC's to shift away from protectionist import substitution policies to a recognition that the best engine of growth is full-fledged participation in the world

trading community. Increased exports by these nations will help offset the increasing import costs they face in an effort to transform themselves into modern and productive economies.

Several years ago, the industrial nations of the world, within the framework of the Organization for Economic Cooperation and Development (OECD), agreed to put a system of generalized preferences into effect. Our major industrial allies and competitors, including Japan and the European community, have fulfilled their part of this agreement. Because we have not, the European community has felt free to justify its own special agreements as proper.

We support Section 604 which prohibits the President from granting preferential treatment to any developing country which itself accords special treatment to the exports of an industrial nation. The Chamber stated in February, 1971 that any program of preferences should assume the abolition of reverse preferences. Initiation of a generalized system on this basis will, we hope, spur both the developing and the remainder of the developed world to seriously reconsider the inequitable arrangements involving reverse preferences.

ASSOCIATED ISSUES

(*1*) *Coordination of international economic policy*

We urge that appropriate steps be taken to assure the effective coordination of international economic policy within the Executive Branch of the U.S. Government.

(*2*) *Taxation of foreign source income*

We urge that tax reform as it relates to foreign investment be considered in the context of overall tax policy and not in conjunction with, or as part of, H.R. 6767. On March 8 of this year, the National Chamber testified before this committee on federal tax reform. An extensive section dealing with taxation of foreign source income was included in our testimony. At the time of our prior testimony, the Administration's foreign tax recommendations were not available for comment. Consequently, we would like to supplement our testimony on the foreign tax issues and comment on the Treasury's recommendations. Unfortunately, there is no statutory language available at this time, and our comments are necessarily based on Treasury's description.

The Treasury Department made two recommendations concerning foreign source income. The first recommendation contains two proposals for the current taxation of the earnings of a foreign subsidiary of a U.S. corporation with a manufacturing or processing facility. The two proposals in this recommendation involve additional investment in a country (1) which offers a "tax holiday," i.e., reduced tax rates for a period of time, or a similar tax incentive, and (2) in which a foreign subsidiary pays an effective tax rate of less than 80% of the U.S. tax rate and where 25% or more of its gross receipts are realized from shipping products to the United States.

The second Treasury recommendation deals with a limitation on the foreign tax credit through the recapture of foreign losses. This recommendation calls for the carry over of foreign source losses to subsequent taxable years for purposes of determining the limitation on the foreign tax credit.

The National Chamber opposes any changes in the law that would permit taxing earnings of foreign manufacturing subsidiaries of U.S. corporations in the year in which they are earned, rather than when they are paid to the parent company as dividends, as at present.

We support existing law and oppose any changes that would repeal or modify the foreign tax credit. Also, we oppose elimination or fragmentation of either the overall limitation method or the per-country limitation method of computing the foreign tax credit.

Where abuses do exist, the National Chamber certainly supports appropriate measures to correct them. However, we are deeply concerned that in implementing the President's recommendations, as outlined in his trade reform message of April 10, 1973, the Treasury appears to be adopting an extreme interpretation. As it is approaching the matter, Treasury, in due course, would tax currently the income of virtually every manufacturing foreign subsidiary of a U.S. company. Of equal concern, there would be a substantial restriction on foreign tax credits in that they could effectively be computed only on a country-by-country basis, rather than on a worldwide basis. The combined effect of these two provisions would be a major inhibition on the future growth of foreign subsidiaries

which are attempting to meet head-on the intense competition of their foreign counterparts.

As a first condition, the Treasury proposes to define the concept of a "tax holiday" or "investment incentive" so broadly as to include any income tax provisions, however phrased, which either is intended to or has the effect of encouraging investment in the country granting it. This would be true even if the identical incentive were granted to local companies. In effect, if a foreign country establishes a tax policy, such as an equivalent of the 7% investment tax credit allowed under U.S. tax law, or allows depreciation at a rate not directly related to actual life—e.g., amortization like that accorded pollution control equipment in the United States—then one test for current U.S. taxation would be met. Even more disturbing is that if the incentive were available, but not used by the subsidiary, then the country would still be characterized as a tax holiday country for purposes of this test.

The second Treasury condition for current taxation is met when the subsidiary's additional investment in tangible assets has increased by 20% after April 9, 1973, or any new investment is made after that date.

What does this mean to a U.S. company having a foreign subsidiary engaged in manufacturing operations? In short, it means that once these two tests are met—i.e., tax incentives are available and tangible assets increase 20%—then the U.S. parent will find itself taxed currently on the unremitted earnings of the foreign subsidiary; and this would continue forever, even if the tax incentive were withdrawn by the foreign government. The practical effect of the 20% growth test would be to tax currently virtually every foreign subsidiary within a very few years.

More specifically, from a technical point of view, the Treasury definition of increased investment appears to include replacement of existing property, if the amount spent for the replacement exceeds 20% of the presently existing assets. For example, assume a foreign subsidiary has tangible property of $1 million. Twenty percent of that amount is $200,000. Further assume assets having an original cost of $300,000 are replaced at the same price. Although the total investment remains constant at $1 million, the $300,000 replacement cost exceeds the 20% test level of $200,000. This is certainly one possible interpretation of Treasury's language. Such a provision would impose severe penalties on any U.S. subsidiary seeking to remain competitive.

It should also be noted that in determining whether there has been a 20% increase in tangible assets after April 9, 1973, the test is made on a cumulative basis, rather than an annual basis. Thus, the test leaves no room for inflationary factors, possible currency fluctuations, or for any growth whatsoever.

We have mentioned our concern about the restriction placed on the foreign tax credit. As noted under the Treasury recommendation, the U.S. parent's foreign tax credit on the income of the subsidiary would be limited, in effect, to a per-country basis without the option of using the present worldwide basis. But even worse, the per-country limitation would be computed on even a more restrictive basis (excluding low-taxed interest and royalties remitted from the same subsidiary) than under present law.

There are a number of reasons the per-country limitation should not be made mandatory. A U.S.-based company with worldwide operations should receive credit for taxes paid in the several countries rather than be subject to an arbitrary limitation.

The present overall limitation is consistent with the way in which many U.S. firms operate abroad. For example, assume different parts of an article are manufactured in several countries for final assembly in yet another country. In these cases, it would not be equitable or logical to treat taxes of each country in which the production process occurs as separate and unrelated to the complete production process. Only by totaling the taxes of all countries and relating them to the combined income from the overall operation can the average tax on the integrated production process be measured. This is the tax which the U.S. Government should recognize for foreign tax credit purposes.

Also, it should be noted the per-country limitation has no carry over provision to average out the effects of swings from year-to-year in foreign tax rates above and below the U.S. rate. A further point against the per-country limitation is that U.S. companies would be put at a competitive disadvantage with their counterparts in those countries which favor foreign source income in one way or another.

The second recommendation, placing a limitation on the foreign tax credit by requiring a recapture of losses, would tend to discourage smaller and less eco-

nomically integrated companies from entering into foreign ventures in less developed, relatively high-risk countries. These countries present potentially rapidly growing markets of the future. This discouragement would result in yielding a part of these potential markets to companies which are based in countries that encourage such foreign investment.

This limitation on the foreign tax credit would make it more difficult for many companies, especially the smaller and less fully integrated companies, to engage in overseas mineral exploration and development. At a time of increasing awareness of the limitations of the currently producible mineral wealth of the United States, and at a time when the nation is experiencing serious energy shortages, it seems especially unwise to adopt such legislation.

To summarize, implementation of the Administration's recommendations, as outlined in the detailed description by Treasury, would impose unwarranted penalties on U.S. companies operating abroad through subsidiaries. These subsidiaries are competing for overseas market opportunities through both trade and investment, and the competition they face is intense.

It should be emphasized that no other major industrial country taxes currently the unremitted earnings of the foreign subsidiaries of its domestic corporations. Current taxation by the United States would, therefore, put U.S. companies operating abroad at a serious competitive disadvantage. The imposition of effective full current taxation on virtually all U.S. subsidiaries, coupled with country-by-country limitation on foreign tax credits, is clearly unwarranted. These penalties against American business operating abroad are further compounded by the proposed limitation on losses for purposes of computing the foreign tax credit.

(3) *Social security totalization agreements*

We recommend the negotiation of totalization agreements on social security with foreign countries. There is a need for Congress to deal quickly with the mounting problem of double taxation in this area.

American firms employing American citizens abroad are usually required—along with the employees themselves—to pay social security taxes to the United States and to the host country as well. Only rarely do the employees remain in one foreign country long enough to become entitled to any benefits. Social security totalization agreements have become common among industrialized countries to eliminate effectively this double coverage and taxation, and, at the same time, to assure continuity of protection for the migrating employees through limited coordination of national social security systems. We understand that the Administration cleared a proposal last year to authorize a totalization agreement, but it was too late for Congressional action. An identical proposal, we understand, has been submitted by the Department of Health, Education, and Welfare to the Office of Management and Budget this year. The National Chamber and many American Chambers of Commerce abroad support the concept of totalization agreements, and we urge favorable consideration by this committee.

(4) *Multinational corporation*

Without entering too deeply into the debate over the multinational corporations, we believe it important to review briefly the basic function and purpose of foreign direct investment.

The answer to our international economic problems does not lie only in the improvement of our trade balance. With the rapidly increasing demands for energy and natural resources that must be met, in part, by foreign sources, we simply cannot continue to think in terms of trade alone. One of our primary objectives must be to encourage the development of foreign market positions—markets for both U.S. exports and imports. The multinational corporation is the most efficient instrument to acquire and maintain these markets. By internationalizing the production process, foreign operations of the multinational corporations have become the single largest customer of U.S. exports, and the largest supplier of vital energy imports.

Foreign direct investment by U.S. multinationals is the key to market access and position. If, for any reason, the U.S. multinationals are restrained by increased taxes, or technology and capital controls, they will be handicapped as they attempt to compete with the growing presence of foreign-based MNC's. At the same time, our market position abroad will be impaired. We are no longer self-sufficient. Our banking manufacturing and raw material needs are all tied in to an international economic system that demands maximum performance from all of its parts. We cannot expect the U.S. multinationals to meet these competitive demands without the full support of our government.

In regard to the domestic employment impact of foreign investment, many critics have assumed that the hiring of a foreign employee by a U.S. company operating abroad means one less job at home. They also assume that investment in new plant and equipment overseas means an outflow of the technology and capital required to create American jobs. This logic breaks down when one realizes that multinational firms invest overseas in order to maintain existing markets and to expand sales opportunities—opportunities that would otherwise be lost when exports could no longer compete in those markets as a result of increased transportation costs, tariff barriers or simply better local or third-country competition. Multinational investment thus works to the benefit of all workers, especially those in export-related industries, since the foreign market can be preserved and, in time, new opportunities for trade lead to more exports and more jobs at home, as cited in our survey of 160 U.S. multinationals.

TRADE ADJUSTMENT ASSISTANCE

The unprecedented prosperity of the past decade has exerted enormous pressures on most developed nations to follow policies aimed at full employment. As a result, governments often seek "temporary" expedients to protect domestic jobs from dislocation. In foreign trade, these expedients take the form of tariffs, quotas, and nontariff barriers. Unfortunately, such measures rarely benefit economies in the long run. Successful adjustment to competition is postponed, leading, at a later date, to more serious dislocation.

The problem is exacerbated by our sensitivity to the economic policies of our major trading partners. The domestic economy, it would seem, can no longer be insulated from the fluctuations of the foreign trade sector. With this in mind, as well as the need to avoid such "expedient" policies which cause enormous difficulties in an interdependent world, a viable program of economic adjustment is certainly required.

One of the effects of foreign trade is to shift resources from economic activities in which the U.S. is relatively less efficient to economic activities in which the U.S. is relatively more efficient. As a result one plans to incur a certain amount of necessary adjustment. Very simply then, when the U.S. adopts a policy which involves some anticipated needs for adjustment, it necessarily and rightly adopts policies to ease those adjustment burdens and to move those people into other employment that contributes to the national well-being. This is a process which should be encouraged and not impeded by the expediences about which we spoke.

PRESENT PROGRAM OF ADJUSTMENT ASSISTANCE

The present program of adjustment assistances has been clearly deficient.

(1) It generates little real adjustment to economic change for dislocated workers, providing only temporary supplements to unemployment compensation.

(2) The assistance commences long after dislocation has occurred and is delivered far too slowly.

(3) It provides no help whatsoever for communities.

(4) There is no high-level governmental attention to the program and no central direction to it.

ELIGIBILITY CRITERIA

One of the major difficulties in the current program has been the highly unrealistic eligibility criteria. While it has been relatively simple to show that imports have caused injury to firms and workers, it has been particularly difficult to prove that these imports are the *major* cause of such injury and that the increased imports have resulted from past trade agreement concessions.

What is required, it would seem, are more realistic criteria that emphasize the dissociation between adjustment assistance and escape clause cases. We find the President's proposals adequate in this regard and support them fully.

SPEED OF DELIVERY

At present, there are two routes to obtain adjustment assistance. Under the escape clause procedures, firms and workers in an entire industry can obtain help. The process in this case takes up to six months in the Tariff Commission; a subsequent decision by the President, which may take 90 days; subsequent certification of individual firms and workers by the Departments of Commerce and Labor; and delivery of benefits through specific agents. When individual firms and groups of workers apply for assistance, they must undergo scrutiny

by the Tariff Commission for 60 days; Presidential consideration if the Commission vote is tied; certification by the relevant Department; and then delivery. In both cases, interminable delay has been the rule.

The proposed changes in adjustment assistance eligibility criteria would themselves go far to speed the delivery of assistance. Further steps are needed, however, both to anticipate and hence avoid dislocation caused by trade flows and to assure prompt relief when dislocation does occur. Early warning of impending dislocations is needed well before firms begin to slide competititively. The government, which now enters the adjustment process far too late, can help in this process by improving its analytical capacity. To do this, however, the government must get close and continuing advice from those directly affected who are likely to first pick up the signals of impending change—the firms themselves.

We believe that *government should actively consult firms and trade associations to keep abreast of their judgments concerning trade trends.* Since a two-way flow of information is required, *it should be possible for firms to consult the government while developing their individual views as they make future investment and marketing plans.* Such information should be particularly helpful for smaller firms which usually suffer most from import dislocation. Acting as a broker, the government could assure confidentiality of information of commercial importance to individual firms. In the consumer goods industries, where imports have been rising sharply, retailers—who are frequently in the best position to spot changing patterns of consumption and hence pending economic dislocations—should be actively consulted.

The objective would be to develop and share information on the outlook for foreign competition in the U.S. market, in an effort to spot emerging trends better than could be done by individual firms on their own. Firms would then have an earlier opportunity to adjust on their own, and avoid import dislocation.

The Chamber recommends that *firms be eligible for technical assistance from the government on both a grant and reimbursable basis, when the administering authority determines in advance of the actual manifestation of any injury they face the "threat of serious injury" from imports.* The concept of threat of serious injury is encompassed in the present adjustment assistance legislation, but has been interpreted to require that the threat by imminent. Under the proposed approach, it would encompass a much longer lead time than heretofore.

The primary responsibility for early warning to workers rests with private firms, however, because it they who face the pressure of increased competition and must make decisions to respond to it. *The Chamber views it as the responsibility of U.S. firms to give reasonable advance notice to workers who will be laid off, and to provide them with full information concerning the available benefits under the proposed program. We urge all firms to adopt this principle.*

In combination with the speedy delivery of benefits permitted by the new criteria and promoted by the new administrative machinery to be discussed below, and the improved adjustment mechanisms, these early warning provisions should go far to assure workers that they would have both the time and the means to transit from present to future employment with minimum personal disruption. Indeed, early action by firms to preempt import penetration would, if successful, obviate significant dislocation to workers generally.

FIRM ADJUSTMENT ASSISTANCE

We oppose the Administration's decision not to recommend an extension or continuation of the firm adpustment assistance program. As we have seen in the section dealing with a faster program delivery, it is critical to have the firm tied into the process at every stage. The Chamber generally believes that management should itself be responsible for the response of firms to dislocation from imports. Indeed, firms which fail to adjust to competition from imports, either by improving their ability in their present product line or by shifting to a new product line. may have to go out of business entirely.

Nonetheless, in legislation designed to give the President the utmost flexibility, there is an extremely logical place for firm adjustment assistance on a limited basis. In terms of dealing with foreign trade-generated dislocations, it would be unwise to put the President in the position of having a choice between (a) doing nothing and (b) taking precipitate action that would have wide-ranging effects on the economy as a whole in the case of quotas or orderly marketing agreements. When you have a hangnail, you don't amputate our arm to get rid of it—you deal with the localized problem on a specific basis. And this should be the case with firm adjustment assistance.

Eligibility criteria should be liberalized in accord with the proposal for workers. Depending on the particular case, the objective of assistance should be to help the firm restore competitiveness in its present industry or adjust into a new line of endeavor. Despite the limited nature of the experience gained so far under the existing program, it appears that both objectives can be achieved.

The most necessary improvement in aid to firms is increasing its timeliness. Firms must adjust rapidly to avoid major losses which may undermine their positions for years, or even lead to total collapse. Most of the failures to promote firm adjustment under the present program can be attributed to slowness in identifying a problem and then providing the available assistance. Early help is more effective and cheaper as well.

The needed speedup should be achieved through liberalization of the criteria for eligibility and an improved delivery system. As already proposed, new approaches to early warning and technical assistance to firms facing a threat of future injury could play a critical role in pre-empting dislocation from imports for firms (and through them for workers), if expert management consultants were employed at an early stage to analyze the firm's problems and propose a plan of action.

The benefits available to firms in present legislation include eligibility for tax loss carrybacks for two years beyond normal practice, preferential access to government credit, and technical assistance to help them achieve a viable business position. *Government guarantees should be extended—for a fee—to enable eligible firms to obtain credit from private sources (and possibly save money for the government). This requires two changes from present law: (1) the interest rate on guaranteed loans should not be tied to the borrowing rate of the Treasury, which is obviously a far better credit risk than firms threatened by import competition: (2) guarantees should cover 100% of the private loans (instead of the present 90% ceiling) if they were arranged sufficiently early in the adjustment process to provide high promise of saving the firm.* Technical assistance, including consideration of mergers and sales of a firm's assets, should be expanded through additional use of private consultants.

ADJUSTMENT BY WORKERS

For many years we have urged that any cash compensation to trade-displaced workers be administered and financed by the states through their state unemployment compensation programs with the eligibility and the benefit amounts and durations being provided in the state system. We continue in this belief and urge your support.

How can we best facilitate meaningful adjustment? Real adjustment into new positions will often require retraining and relocation to areas where new jobs exist, in addition to proper incentives to seek and accept such jobs. Such steps can be most effective in reducing the costs of dislocation if they are initiated as early as possible in the dislocation process.

A successful adjustment program for trade-dislocated workers requires four key components. The *first* is early attention to the problem. Part of the success of the Office of Economic Adjustment in the Department of Defense, in helping whole communities adjust to cutbacks in defense expenditures, can be traced to its early knowledge of developing problems. It would be difficult to replicate as much early warning in the private sector, of course, since the Defense Department obviously knows where defense cuts are coming.

Nevertheless, the suggestions already made to provide early warning of likely problems would permit much earlier triggering of adjustment efforts including efforts to prevent the dislocation from occurring at all.

The *second* requirement is that job training be geared to jobs which will in fact be available when the training is completed. This suggests a focus on on-the-job training, under which the new employer receives government payment for each new worker hired during the training period. *To utilize effectively both the on-the-job and institutional programs, sharp improvements are needed in the Federal-State Employment Service and computerized job-worker matching, including better statistics on "jobs available" and continuous updating of job definitions.* As proposed in Section 233 of the President's recommendations, we believe an integral part of this is *markedly improved counseling and employment services on a reimburseable basis.*

A conscious effort by the Employment Service is needed to pinpoint emerging job opportunities, preferably in the same or neighboring geographical areas,

which will be available to job trainees. Job searches by the Employment Service for the relatively small number of workers displaced by imports might be a particularly useful area in gaining valuable experience for future manpower programs. The effort could draw on the example of the successful computerized job placement system maintained by the Department of Defense to direct retiring Defense personnel into civilian employment.

A *third* requirement is adequate training programs. There is much criticism of the effectiveness of current manpower training programs. Few of the present government programs which bear that name, however, have aimed at the kind of adjustment discussed here. Most of them have been adjuncts for the poverty program, aimed at the most disadvantaged and least skilled of all Americans. Even so, a number have achieved real adjustment—even in extremely difficult circumstances, such as in Appalachia. Specific programs for specific circumstances have worked—the Studebaker and Armour reconversions and the Defense Department programs to smooth the adjustment to reductions in defense spending in Wichita and dozens of other locales. Manpower programs have worked effectively in other countries, where they have received a higher priority from national governments, have had longer periods of experience from which to learn, and have operated within a context of low unemployment. They have worked in individual states in our country, which have attracted firms by training workers to meet specific job needs.

The most important reason why the Chamber is confident that current training programs can achieve adjustment to trade dislocation, however, is that the workers displaced by trade flows are far superior to the participants in most current manpower efforts—who are essentially recipients of poverty help. Trade-impacted workers have been working, often for many years and even decades. This means that they have demonstrated work skills. Even more importantly, they have a proven desire to work—the work ethic is clearly alive in this group. They are thus likely to be highly employable relative to the average participant in current manpower training programs, many of whom have little work experience or education.

Thus there is real reason to expect that trade-impacted workers, if given appropiate help, will be able to adjust effectively to new occupations. We believe that the proposals made in this statement will strongly enhance that possibility. The workers involved would have already demonstrated their desire and ability to hold the job. Indeed, serious efforts to train the relatively able workers dislocated by trade flows could provide valuable lessons for the broader manpower programs which can plan a major role in the fight against inflation by upgrading the skills of our national labor force.

The *fourth* requirement is adequate relocation reimbursement. Efforts should be made to avoid the disruption to people's lives which results from such geographic moves. However, such moves will be needed in some cases and the *costs of relocations should be financed by the trade adjustment program, with funds authorized by the Manpower Development and Training Act of 1962, as amended.* We therefore support Section 236 of the President's proposals as consistent generally with this recommendation. We would propose only one modification: *that all dislocated workers, not just heads of families, be eligible for relocation expenses.*

ADJUSTMENT BY COMMUNITIES

Communities are not eligible for adjustment assistance under present law. Yet many of the most severe dislocations caused by trade flows fall on those affected indirectly—the firms and workers who provide services and inputs to the firms and workers who compete internationally.

The Chamber therefore recommends that local governmental units be eligible for assistance when a significant share of their total workers had been declared eligible for the program themselves and could qualify by demonstrating that their problems were substantially due to the effect of import competition. Eligible communities could then receive attention of the type carried out successfully by the Office of Economic Adjustment in the Department of Defense in recent years on behalf of the President's Inter-Agency Adjustment Committee, for over 160 large and small communities (including entire countries) impacted by changes in defense spending since 1961. The primary thrust of this effort is to help affected areas mobilize their own resources effectively, and by doing so attract private resources from outside the area to add to the adjustment. (In Wichita, for ex-

ample, $40 million of Federal funds played a key role in attracting $700 million of private influx.) The Department of Defense sends teams of experts into impacted areas to analyze their problems and devise rehabilitation efforts. Local leaders—from business, labor, and other groups—are brought together to agree on a plan of action, assign responsibility for its implementation, and monitor the follow-through. We believe this is a useful precedent and urge its adoption in the case of adjustment assistance.

ADMINISTRATION OF THE PROGRAM

As we have stated, the present program is badly fragmented; delay and lack of coordination are inherent. The Tariff Commission must first find injury from imports. In industry-wide cases brought under the escape clause, the President must then determine whether adjustment assistance is the proper remedy. Individual firms must be certified as eligible by the Secretary of Commerce and that process has been extremely clumsy and prolonged. There is no early warning and no early action.

We believe that a single agency is needed to administer the adjustment program. It would be responsible for the participation of the government in the new system of early warning, economic analysis, eligibility findings, packaging of appropriate benefits, delivery of benefits, evaluation, publicity of results, and accountability to the President and the Congress. Such an integrated approach would permit early attention to emerging dislocations and rapid delivery of the new and liberalized help to meet them.

Such an agency could closely link, in time and in the decision-making process, determinations of eligibility and packaging of benefits—instead of the sequential process of the present program which has proven ineffectual.

It would build on previous experience, which suggests that the best managed government programs are those of specialized agencies with unitary purposes—and that the worst of all worlds, as has been the case so far for adjustment assistance, is to attempt to manage a unitary program by parceling out various aspects to a combination of old-line agencies and regulatory commissions. To insure full coordination of the assistance program with overall foreign economic policy, its director should be made a member of the Council on International Economic Policy. To insure full coordination with overall economic policy, including structural adjustment efforts, he/she should also be a member of the Council on Economic Policy.

The Chamber shares the widespread distaste for new government agencies. Nevertheless, they may have to be created when a particular need arises. The Chamber believes that domestic adjustment to trade flows represents such a case and therefore recommends the creation of a new government agency independent of all existing departments, along the lines of the Export-Import Bank or the Federal Home Loan Board. It should operate with a small cadre of top-flight administrators, manpower specialists, business and financial analysts, and economists. In view of the long-run and continuing nature of the adjustment problem it should operate under a multi-year authorization. The policy direction of the agency, within the framework legislated by the Congress should be set by a mixed board comprising the relevant government officials and representatives from business and labor.

CONCLUSION

We believe that the proposed program can work well in providing effective adjustment of communities, firms and workers. We caution, however, that adjustment assistance not be regarded as a panacea for the various types of economic dislocation that may result from the natural flow of foreign trade. Nonetheless, in a world so economically interdependent, sound and rational approaches to limited adjustment programs are required. The Chamber's proposals in this area are made toward that end.

Mr. ULLMAN. Mr. Goldy, thank you, first, for giving us a very thoughtful paper, well organized and put together in such a way that it can be very helpful to the committee.

We appreciate your covering the points and covering them rapidly and effectively. You have been extremely helpful.

Mr. Burke?

Mr. BURKE. Mr. Goldy, while I do not agree with most of the recommendations here, you seem to spell out that business is the one that is getting hurt and not the working man and woman by our trade policies.

However, I didn't want to get into a long discussion with you on that to prove that you are wrong or that I am wrong.

I would like to have you explain on page 19 your social security totalization agreement. What do you mean by that?

How would they be brought about and what do they specifically do?

Mr. GOLDY. I will ask Mr. L. Oakley Johnson, who is a staff associate of the chamber's international group to answer the question for you, Mr. Burke.

Mr. JOHNSON. The social security totalization agreements would be an effort to avoid a situation whereby an employee of a U.S. corporation operating abroad might find himself paying social security payments to many different governments.

The aim would be to negotiate totalization agreements with countries on a bilateral basis that will in a sense totalize the benefits paid in relationship to the payments made and thus the word "totalization."

Mr. BURKE. That doesn't say much. How does it work out?

Do the payments revert back to the United States in case the individual comes back to this country and starts looking for social security benefits when he reaches the age of 62 or 65?

What do you mean by "totalization"?

Mr. SCHNEEBELI. Will the gentleman yield?

Is it comparable to portability as applied to our private pension system?

Mr. JOHNSON. That is exactly the idea, Mr. Schneebeli.

Mr. BURKE. What happens to the funds? How do the funds follow this individual? That is what I am trying to get at.

Mr. JOHNSON. It is a difficult problem and that is the reason it has to be negotiated on a bilateral basis. I believe it depends primarily upon the systems involved in each country depending upon the level of benefits given and the amount of payments required.

It has to be worked out between the United States and the host country in which the U.S. employee is employed.

Mr. BURKE. How does it affect the individual on his payments and on his credits is what I am trying to find out.

When you come to this agreement with the individual country, let's follow that individual. He works overseas, say, for 20 years. He pays a different rate in every country.

How do the funds affect the trust funds back here? What funds revert back to our trust fund?

Mr. JOHNSON. At the present time, there are no negotiated bilateral agreements between the United States and any country. It would pretty much completely depend on the situation that evolved after the first agreement was reached.

Mr. GOLDY. If I may, I am going to try to answer your question, Mr. Burke.

The idea is to negotiate bilateral agreements under which if a person is working abroad that country will transfer the contributions he makes under their system back to the United States and he gets full benefits back in the United States and they make the contribution.

Similarly, for their nationals working in this country, we would transfer contributions made under our system to their government and he would get his full benefits back in that country.

Mr. BURKE. How would we make out as far as our trust fund is concerned?

Would we lose?

Mr. GOLDY. The idea is we would get the contributions he made in other countries transferred here to our trust fund.

Mr. BURKE. Suppose we have ten working over in their country and they have only one working over here so that they would only get 10 percent back from us?

Mr. JOHNSON. The problem is that these individuals make contributions and pay taxes under different pension systems.

If a person is a citizen of the United States and is working abroad and is contributing abroad, the question is whether he is going to come back to the States and get his pension here.

The question is transferring back to the States the contributions he is making under a foreign system so that it goes into the trust fund back here.

Mr. BURKE. I understand that but when there are 10 people working over there and that country has only 1 working over here you would have 10 percent of the funds being sent back there and 100 percent of the fund being sent back here?

Mr. JOHNSON. It would be in proportion to the contributions made.

Mr. BURKE. Do you think this is very realistic? Do you think it will take place or will this result in siphoning off funds from our social security trust fund, again subsidizing the multinationals?

Mr. JOHNSON. No, I don't think so at all. I think it would be just the opposite. It would be just that individuals who are making contribution abroad would have those contributions brought back to the United States.

Since they now come back here and are entitled to social security anyway, this will help bring the funds that they are contributing overseas back to the States.

I don't think there will be a subsidy.

Mr. BURKE. The funds that they contribute to their social security fund over there or to our social security fund?

Mr. JOHNSON. What we are talking about is transferring back to the United States funds contributed to a social security system over there.

Mr. CONABLE. Will the gentleman yield?

Wouldn't it be necessary to leave it to the option of the employee because you are going to have all different nationalities and classes of employees working for multinational corporations and the way it is now quite obviously there is no transferability of contributions to a foreign social security system.

If he wishes, if he is an American working abroad, this would give him the option of increasing his contribution to the social security system here thus increasing his pension here, the assumption being that if he is an American he is going to work only a portion of his time in this country and get to qualify for minimum pension.

But you are going to have to leave the ultimate decision up to him because after all he has mobility and could contribute to whatever system is the collecting agency where he happens to be working.

Mr. JOHNSON. I would hope that that is what those agreements would provide.

Mr. BURKE. I would like to ask this before I conclude. Does every American citizen that goes overseas working for these subsidiaries over there pay into the social security trust fund?

Mr. CONABLE. Is there a withholding from them as they withhold from the domestic companies?

Mr. JOHNSON. I am not sure of the answer to that question.

Mr. GOLDY. After they have been there for a while they have a deferment on tax. I don't know whether the social security payments are collected or not. We would have to find the answer to that and let you know. We would be glad to do that, though.

Mr. ULLMAN. This is a very important item.

Mr. BURKE. You have really a very vague explanation of this and apparently you are not equipped to give us the answer. I would like to get a summary of information from the gentleman who is giving the answers on just how social security withholding is conducted on the subsidiaries of our multinational corporations and other corporations overseas on the part of American citizens who go abroad working, and what they do as far as their salaries are concerned and as far as the trust fund is concerned.

I could see where some of them could work over here and build up enough quarters to be entitled to the social security when they reach the age of retirement, but at the same time they are not contributing as other people are forced to contribute for 40 or 45 years over here when they work for domestic industries.

Mr. ULLMAN. Without objection, the record will be held open for that purpose. Make it a rather thorough analysis going to points like whether they can collect both our social security and the social security from other nations, whether they have any options of continuing to pay into the American social security system or not or any options to contribute to the local country's.

I think it is important now that you have raised the issue that we have a better understanding of it.

[The analysis requested follows:]

SUPPLEMENTARY STATEMENT BY THE CHAMBER OF COMMERCE OF THE UNITED STATES

When an American worker goes abroad to work for an American employer, the Social Security Act (Sec. 210 A) and the Internal Revenue Code (Sec. 3121 B) provide that his coverage under the Federal Old Age, Survivors, Disability and Health Insurance program (OASDHI) must continue. The Internal Revenue Code (Sec. 312 L) further provides that where such a person goes abroad to work for a foreign subsidiary of an American employer, the employer may conclude an agreement with the Secretary of the Treasury to continue coverage under OASDHI for at least 10 years. In those cases, most American employers elect to continue the coverage because they believe it is in the best interest of the workers to do so. Most foreign countries, especially the industrialized countries of Western Europe, however, treat these workers as they do their own nationals, requiring contributions for protection under their own laws from both employer and worker. This problem is called dual coverage, and it is a problem because many of these workers do not remain in any one foreign country long enough to qualify for pensions. Unless the other country allows contribution refunds—which they only occasionally do in the case of the worker and almost never in the case of the employer—the contributions are lost.

When an American worker goes abroad temporarily to work for a foreign employer or when a foreign worker comes to work in the United States, they are of course covered under the law of the country where they work. But again unless they work long enough to qualify—most European countries require

a minimum of 15 years for even partial pensions and the United States will ultimately require 10 years—the contributions are for all practical purposes lost. This group, however, faces the added prospect of losing continuity of protection in their home countries, which usually has a negative effect on the size of any ultimate benefit and could, in certain instances (e.g. disability), result in the loss of beneficiary rights altogether.

These problems are not unique to American workers or to workers who come here from abroad. They have long been recognized by the governments of Western Europe who have, since the 1920's, been utilizing international agreements to avoid these problems where possible, and where it is not possible, then to establish a method of limited coordination among their country programs to assure the worker adequate protection. The name given to these agreements is totalization.

Social Security totalization agreements do the following:

1. They avoid dual coverage by establishing rules about when the worker who is abroad will remain covered by the program in his home country—thereby exempting him from coverage in the country where he is working. And, further, when he will be covered by the program of the host country—thereby exempting him from coverage in his home country. Various methods are used, but the main effort is to maintain coverage and continuity of protection in the home country, as long as the service in the host country is considered to be temporary.

2. For workers who acquire credits in two (or more) countries, they provide a method of combining (i.e. totalizing) the credits to assure entitlement in one or several conutries and apportion the benefit liability among the systems on a pro rata basis. For example, if an American worker has 8 years of coverage under OASDHI and then goes to Italy to work for an Italian employer for 7 years with coverage exclusively under the Italian system, he might not be entitled to a pension under either system. However, by combining or totalizing the credits in each country, he meets the entitlement requirements in both countries (10 years under the mature OASDHI system, and 15 years in Italy). He would not of course be entitled to full benefits under either system, but each country would pay him a pro rata share of the benefit to which he would theoretically be entitled if he had worked the entire time in that country (8/15 from the U.S. and 7/15 from Italy).

From the contribution and coverage side, the advantages of totalization are that the worker who worked long enough will be sure of some benefits at the end of his career even though he worked in several countries, and moreover that his benefits will bear some reasonable relation to his work history and to the value of the contributions made by him and his employer.

A particularly significant advantage to totalization over other methods of coordination (such as transfer of credits and contributions) is that no interprogram accounting and no exchange of money between programs is necessary or called for.

The coordination between countries is at the level of exchanging information and assisting each other with the administration of benefits (which in itself could result in significant savings for the U.S.), but in the payment of benefits, each country deals directly with the beneficiary and applies its own laws and regulations with respect to the benefits it pays.

Data on the cross-migration of workers between the United States and other countries are very limited. However, the patterns of migration are clear, and from these one could perhaps make some general predictions. For example, most Americans who go abroad to work for American employers or their foreign subsidiaries, are abroad for relatively short periods. They are mostly technicians who go for a specific project or managers who go to learn foreign operations before they return to higher positions than they had before they left. Some may work in several countries, but for the most part they do return to the United States well before retirement. Under present law, these workers are not disadvantaged under OASDHI, but they usually lose their contributions to the foreign system. No additional cost to the trust funds would result for these workers under totalization because they would most likely be entitled to full OASDHI benefits even without it. The National Chamber has received corroboration on these tendencies with respect to American workers overseas from American Chambers of Commerce Abroad.

As to American workers who go to work for a foreign employer abroad, some additional cost to the trust funds could result if they did not work long enough in the United States to become entitled to OASDHI benefits. This cost would result from the payment of partial OASDHI benefits.

However, the risk would be small in these cases because the qualifying periods under OASDHI are fairly low and the likelihood of such workers failing to qualify for OASDHI benefits independently of totalization is also very small.

From what is known about foreign workers coming to the U.S., again there could be a small cost for partial benefits. But it appears that most foreign workers coming to the United States intend to remain permanently and usually qualify for OASDHI benefits independently. In these cases, the credits they earned in their home countries before coming here, which rarely are enough to qualify independently for benefits there, would, under totalization, result in partial payments to them in the United States from the other country's system. This would be another advantage to the U.S. balance of payments position.

Social security totalization agreements are necessarily a product of negotiations between sovereign countries. Each country by the agreement makes special provisions for migrating workers which would not be possible under domestic law alone in view of inherent conflicts with the laws of other countries. As previously indicated, most European countries have such agreements on a bilateral basis and some have had them since the 1920's. The members of the European Economic Community have had a multilateral agreement since 1957 which has recently been revised and extended, to the new members, the United Kingdom, Ireland and Denmark.

Finally, since the enactment of the Canada Pensions Plan, in 1965, Canada has provided authority for concluding international social security agreements.

Mr. ULLMAN. Are there any other questions?

Mr. Schneebeli?

Mr. SCHNEEBELI. Mr. Goldy, as my colleague, Mr. Ullman, said, we are very pleased to have your section-by-section analysis, and your specific recommendations.

They will be very helpful to us. I was particularly interested in reviewing your material relating to adjustment assistance, because this is an area where our present law is very very weak.

I am glad to see that you made some comments about assistance to industry as well as to workers.

I have one specific question. On the matter of taxation of foreign source income, you say, "We urge that tax reform, as it relates to foreign investment, be considered in the context of overall tax policy and not in conjunction with this bill."

I don't necessarily disagree with you, but I would like to know your rationale.

Mr. GOLDY. I have with me Mr. Tansill, who is an expert on these matters. I am going to ask him if he could answer your question.

Mr. TANSILL. Mr. Schneebeli, our position is that as a general proposition, any tax legislation, including any proposal for tax reform, should be considered in a tax bill at the same time and in conjunction with all other proposals for change in the tax law.

One of the principles of our tax law is to assess taxes on the basis of an equitable burden on all taxpayers. We think that is more difficult when a tax proposal is considered in connection with a piece of legislation on another matter.

Mr. SCHNEEBELI. I think you can appreciate the fact that some might favor this legislation only if it included changes in taxation of foreign earnings.

It is possible that majority support for this legislation could depend on whether it included certain tax provisions. I am sure you recognize these practical considerations.

Thank you very much. You have been very helpful.

Mr. ULLMAN. Mr. Conable?

Mr. CONABLE. Thank you, Mr. Chairman.

Mr. Goldy, you said that you wanted adjustment assistance to be administered by a single agency. What single agency do you think it ought to be?

Mr. GOLDY. There is not one now. The thought was that one ought to be created that would in effect be concerned with expediting and facilitating the delivery system whether it be to workers or to firms or to communities rather than the functions scattered throughout the Government.

That doesn't mean actually administering benefits. The assumption is that the actual benefits would be paid the workers under adjustment assistance through the federal-state unemployment insurance system as it is now. But the process of facilitating the eligibility determinations and for, in effect, working out the kind of adjustment programs that are needed for companies and for communities, it is felt this can't be just assigned to different existing agencies of Government and expect that they will give it the required time and attention priority; and we are concerned that if it is scattered there will not be the early warning system and early alerting to oncoming problems that are needed to catch these problems in time to avoid distress.

It is in that sense that we think that there ought to be a new single agency to be concerned with all aspects of adjustment assistance and that agency does not exist at the present time.

Mr. CONABLE. From your comments, I take it you are not in favor of national standards of unemployment insurance; is that correct?

Mr. GOLDY. Well, the chamber has long-standing views on Federal standards in unemployment insurance and if you want to get into that issue at this point, I would ask Mr. Melgard who is here, to whom I referred before, to present the chamber's views on it.

Mr. CONABLE. I don't want to get into it in any detail. I think you understand, sir, some of the reluctance that is felt about setting up a special apparatus on adjustment assistance for workers which is difficult to justify with respect to the unemployment which may be just as severe a hardship which emanates from some other source, possibly a government controlled source like the closing of a defense plant.

There is some feeling that we should have a comprehensive policy with respect to unemployment. If in that framework you would like to comment further about the chamber's attitude, that is fine, but I don't want to get into it too deeply today.

Mr. GOLDY. I just want to say that, as I think this committee is aware from previous testimony, this issue, the issue of adjustment assistance for workers, was a matter of considerable debate within the board of directors of the chamber.

As a director of the chamber, I participated rather vigorously in that debate. What emerged in essence was that we had a situation in which a clear majority of the board of directors then present and discussing the matter was in favor of one line of action but it involved changing existing policy of the chamber and we got hung up on the fact that we didn't have two-thirds of the total board, we only had two-thirds of those who were present.

So the chamber policy did not get changed and Mr. Melgard can explain what the existing chamber policy is.

Mr. CONABLE. Mr. Melgard, would you like to add to this briefly?

Mr. MELGARD. Simply in answer to your question, no, we do not

favor a federal standard for unemployment compensation. If you want me to elaborate, I will.

Mr. CONABLE. I will accept your statement on that.

That is all, Mr. Chairman.

Thank you.

Mr. ULLMAN. Joe, I apologize for not seeing you down there.

Mr. Waggonner will inquire.

Mr. WAGGONNER. Mr. Chairman.

To follow, for just a moment, Mr. Conable's line of questioning having to do with adjustment assistance, do you find any conflict in your testimony this morning?

On page 7 you say, with regard to workers, that you believe that this should be a matter to be handled by the States within their systems and then on page 8 you recommend the creation of a single agency to administer the adjustment program.

You can't do both at the same time.

Mr. GOLDY. If I may say this, you are getting to the heart of the debate that we had inside the board of directors of the chamber over this but essentially, as I think you will appreciate, the chamber of commerce has had a long-standing policy favoring the present form of Federal-State unemployment insurance and it wants workers' adjustment assistance to be handled within the framework of that system.

It is really not inconsistent with having a central agency to determine when workers should be available for special additional assistance to be administered through the Federal-State system or other forms of assistance to be administered that we are recommending.

But I appreciate the fact that there would appear to be some inconsistency with putting emphasis on a federal agency to oversee, to determine eligibility and insist that all benefits in one instance be handled through the States.

Mr. WAGGONNER. In the President's recent state of the world report, he took the position that the enforcement of the countervailing duty law has improved markedly in recent years. Do you agree with that statement?

Mr. GOLDY. I have an expert here on the administration of and the recent experience with the countervailing duty provisions, an attorney, Mr. Feller, and I would like to have him answer that question.

Mr. FELLER. Mr. Waggonner, I remember that the statement you are talking about was in the context of the Antidumping Act and the countervailing duty law together. I think it may be a justified statement with respect to the enforcement of the Antidumping Act, but I believe it unjustified with respect to the enforcement of the countervailing duty law. I can give you some clear-cut examples in which this committee might be interested.

Mr. WAGGONNER. I am aware of the fact that we have had this law since 1897 and we have handled only some 200 cases. I have seen statistics, I believe, that say we have had some 200 cases and imposed countervailing duty in only 78 cases.

Mr. FELLER. Yes, sir.

Mr. WAGGONNER. It seems to me that we haven't used it to any extent.

Let us talk a little bit about our deficit with Japan, which, last year, was something in the range of $4.3 billion. I have always had the

idea—but maybe my understanding was wrong, and correct me if it is—that Japan's success in the export market can, in large part, be attributed to subsidies provided by the government. I am just interested if, in these 78 cases of imposition of countervailing duties, we have ever imposed a countervailing duty on an export from Japan.

Mr. FELLER. No, sir. Of all those 78 cases, not once has the United States countervailed against Japan even though there are numerous Government reports from different agencies such as the Commerce Department and the Tariff Commission, which spell out very clearly that the export performance of Japan in the postwar era has been heavily influenced by a systematic program of subsidies for exports.

Mr. WAGGONNER. The Japanese have had unusual success in the electronics business, and that, of course, prompts me to ask this question. I am fully aware of the actions by Zenith and by Magnavox to try to get this Government to do something about countervailing duties, and it seems to me that your point this morning of shortening the proposed time in the administration bill for them to make decisions is something that has to come about.

I don't see any difference in the instance of the Michelin tire decision from Canada than I do the situation in Japan, because the Michelin decision from Canada, as I understand it, determined that countervailing duties should be imposed because Michelin was benefiting from accelerated depreciation of their properties provided by the Government of Canada and Japan has a statutory law which sets forth that their exporters will benefit from such things as accelerated depreciation. They are identical in my personal opinion. Am I right or am I wrong?

Mr. FELLER. Yes, sir; that is quite correct, and the Treasury has known about it for many years.

Mr. GOLDY. If I may add, we recommended specifically, in connection with the countervailing provisions, that the Secretary of the Treasury not be given the discretion as proposed to withhold the application of countervailing duty sanctions when the findings indicate that they should be imposed and that injury has occurred. I think that there has been in the past fairly wide discretion exercised by the Government in instances where they felt that it was in the political or overall economic interests of the United States not to impose it.

Mr. WAGGONNER. It is my personal opinion that the complainant in the countervailing duty case, the administration not to the contrary, should be entitled to court review in the instance of an adverse decision. How do you feel about that? Would it be cumbersome or would it be worthwhile? Would it keep the people in Government who make these decisions honest?

Mr. FELLER. Yes, sir. The chamber supports the concept of judicial review for domestic complainants in countervailing duty cases. This is consistent with the treatment of domestic producers in other areas of the customs and tariff laws. Under the present law, a domestic producer can complain about customs treatment of imports that the duty is too low. This is consistent with that concept, and we support it.

Mr. WAGGONNER. We have talked about export subsidies provided by other governments and they are provided in many forms. We know specifically about participating in Japan under legislative provisions, about benefiting from Canada from accelerated depreciation. What is

the alternative here in this country? If you can't beat them, join them and provide export subsidies, to.

Mr. FELLER. That certainly is one alternative. It seems to me, however, there ought to be stringent enforcement of this law rather than going down the road of active widespread use of the taxpayers' dollars to subsidize our exports.

Mr. GOLDY. I would like to add that there are certain areas where the question of subsidization of exports gets to be somewhat fuzzy. I think, in the real economic sense, that it is a form of subsidy, for example, of exports when countries use their rediscount systems to provide financing of exports at less than their own treasury borrowing rates, which happens. That is a form of subsidy.

What I am saying is that, in those instances—and I have specifically recommended this and have been before the Congress on other occasions, urging that, instead of waiting for the rest of the world to get pure on this subject, we join them and have a rediscount system of our own where we can match what they do and compete in the financial area.

I think you would have to look at the areas of export subsidy, if you want to call it that, or support, and decide in which instances we want to make our stand on the basis of trying to get other countries to clean it up or whether we want to give the same tools, assistance, and aid to our business community so that we can compete effectively.

Mr. WAGGONNER. The administration's bill gives discretionary authority to the Secretary of the Treasury to not impose countervailing duties if he makes a determination that the imposition of such a countervailing duty would be detrimental to the economy of this country. I am interested in how this might work and what your attitude toward it might be.

Mr. GOLDY. Specifically we recommended that this discretion not be granted to the Secretary of the Treasury, since we feel that it would be better for everyone to know the rules of the game; that if countries are subsidizing their exports to us, they ought to know that our domestic producers here can get relief. Once we have gone through the due process of determining that there has been a subsidy and countervailing duties are recommended, it should not be generally possible to set that decision aside by going to the State Department and pleading that in the overall interest of the United States we shouldn't countervail.

Mr. WAGGONNER. Let me say that I agree with that position because we have every obligation to the individual businessman and to the worker employed by that businessman to protect him in specific instances that we have in the overall for the economy of the country.

I want to go back for just one brief question, and then I am through, to Mr. Burke's original questioning about totalizing social security.

Mr. Schneebeli, I believe, put it in the context of portability, how are you going to provide to prevent double dipping wherein a man makes a minimum contribution to both systems and then has the full benefit.

Mr. GOLDY. I think the answer is that that would have to be worked out in the bilateral agreement. I think both parties to the negotiation, the United States and any other country, would recognize that as a potential hazard and would have to work out the answer to that so that that doesn't occur.

Mr. WAGGONNER. Thank you, Mr. Chairman.

Mr. ULLMAN. Are there further questions?

Mr. Archer?

Mr. ARCHER. Thank you, Mr. Chairman.

Mr. Goldy, I would like to claim a part of you for Houston, Tex., too, if I might. I thoroughly enjoyed your presentation today and your answers to the questions.

You mentioned that other countries have adopted a philosophy of the need to export to live and that that philosophy should be adopted by the United States, because we are dependent for a great part of our raw materials from overseas. But it seems to me that there should be uniformity in this concept throughout the world.

The Japanese have adopted it, and yet they have also adopted the standard that, "We will shut our doors to the importation of manufactured products which have a labor-intensive content which give more leverage in an economy than raw materials do." And they have done so apparently quite successfully.

This seems to be a double standard. They can be cited on the one hand as being the paragon of the principle that "we have to export to live," and yet they get away with shutting the doors on the importation of manufactured products. If they can do it, why can't we do it?

Mr. GOLDY. You have asked, Mr. Archer, one of the most basic questions, and you put your finger on one of the greatest irritants that I think exists among the business community and the labor community of the United States. That is the tremendous trade imbalance that now exists between Japan and the United States. They are running a surplus of exports to us over imports of over $4 billion.

This has come about because the Japanese have had a unique system. It is the one of its kind in the world, and it does do what you are talking about. It was designed because the Japanese started out with the recognition that they were most vulnerable because they lacked resources, that they had to be able to go out in the world and get the resources that they needed for their industrial economy.

So they developed a series of techniques, and let's not waste any time about what it is. Those techniques, the basic Japanese system, are violations of the fundamental rules of international trade and investment to the extent that there are any rules of investment. They have not been free or forthcoming.

We cannot go in and do business freely in Japan. No one can. They have been able to run a two-price system and have been able to subsidize in many ways their exports and reach out and compete effectively for raw materials and engage in preclusive purchase.

I know that from time to time you have heard from Mr. Ullman about the problem we have in the Pacific Northwest about one aspect of that problem which involves log exports from the United States.

The answer is not for us to become like the Japanese. This is no way because it violates the rules. The Japanese are being pressed harder and harder to change their basic system to conform to the rules of the game of the rest of the world.

Now, saying all that, that they have had this unique system, doesn't mean, however, that one should blink your eyes at the techniques that they have used for making that system effective. If you go into a

country like Brazil or other places in South America, or in Africa, you confront the Japanese there, and they are very effective competitors.

They are effective competitors for going in and obtaining market position in those countries and struggling to get the same raw material resources that the United States needs.

We have to develop an ability to compete effectively with that aspect of the system.

The closed part of their system, the subsidization part of their system, we can attack head-on on the ground that that is unfair, and this act, H.R. 6767, contains provisions in it which will make more effective action possible by the United States in dealing with that in Japan.

Mr. ARCHER. It seems to me that you are concentrating on the offensive part of the game and not really paying much attention to the defensive part. If you have a football team and say, "We are going to build an offense which will keep up with the other team's offense, but we are going to forget about defense while he is building his defense," you are not going to win that football game.

That is basically what the thrust of your presentation is to this Committee today, and it troubles me because we are in effect saying that the Japanese can continue to build a defensive structure to keep out our imports along with the offensive of trade exports, and all we should concern ourselves with is to try to keep up with them offensively. We are not going to win that battle unless we can build defensive structures equal to theirs.

Mr. GOLDY. Mr. Archer, I think there has been a change, I would say, in Chamber of Commerce position that we have recommended those changes in law that are presented in H.R. 6767 which liberalize the escape clause, which make it possible to take more effective action which gives the President a wider range of tools to attack the kind of things that happen when the Japanese export to the United States under conditions of subsidization.

Mr. ARCHER. Again you are just talking about the offensive end of it, not the defensive end.

Mr. GOLDY. That is defensive. We are talking about protecting the United States against the floods of imports that are stimulated by subsidization.

Mr. ARCHER. But we are still doing nothing to open the doors over there and break down their defensive mechanism.

Mr. GOLDY. If that is what you mean, I have been engaged in it. I am an old warrior in that game. I want to say that as a member of the Advisory Council on Japan-United States Economic Relations, we are going to have a tripartite meeting next week with the Japanese, the Europeans, and the U.S. business communities, to talk some more with the Japanese about the need for liberalizing.

My personal view is this: The Japanese have developed a system. It is a unique system, but it would be as difficult for the Japanese to change that basic system, except by an evolutionary process, as it would be for the United States to change the basic free enterprise we have here.

We can press on the Japanese, and ought to be pressing on the Japanese, with every available means to liberalize—and, incidentally,

they constantly announce liberalization of investment policies and import policies and that sort of thing, but it really doesn't get to the heart of their system. I don't think they have ever gotten to the heart of it yet.

My own view is that it is going to take a while before it is changed.

In the meantime, I think the United States needs the tools with which to protect itself and with which to deal directly with Japan and the consequences of that system. We have been urging that. We think H.R. 6767 gives the executive branch of Government more tools. more effective tools, with which to work on that problem to balance out the trade with Japan so that we don't become victimized by their system.

Mr. ARCHER. We know from your previous colloquy this morning that the countervailing duty procedures have not worked. You have testified that we should not increase our importation restrictions, we should not increase our tariffs against imported goods.

Mr. GOLDY. I didn't say that.

Mr. ARCHER. I am sorry. I thought you commenced your discussion by saying that you did not like the authority granted to the President in this bill to increase tariffs on imported goods into this country, or quotas for imported goods.

Mr. GOLDY. No. May I clarify that?

What I said at the outset was that under the broad trade negotiating authority, that is the authority for the President to participate in the meetings which begin this fall with all the developed countries, the major trading partners of the United States, the language of the bill as proposed by the administration would give the President broad discretionary authority to negotiate reductions in tariffs and trade barriers, but also a broad authority to negotiate increases in tariffs.

What we are saying is that in that broad negotiating authority we see no need for authority for him to raise tariffs except on two circumstances that we specified are harmonization and, in effect, situations where we are trying to convert from nontariff barriers to tariffs.

With respect to what you refer to, we have supported liberalization of the escape clause. We have supported the improvement of the countervailing duty authorities. We have supported the authority of the President to take actions to prevent injury in the United States from a flood of imports that are due to improper, unwarranted subsidization, or other practices or even disruption of market here.

We support such authority for the President where there are difficulties.

Mr. ARCHER. How can we press with every available means, as you mentioned just a couple of minutes ago, to get the Japanese to remove their nontariff barriers and their other restrictions for the importation of American goods if we do not arm the President and his negotiators with the ability to hit them where it really hurts, and that is to place higher tariffs and restrict the importation of their goods into this country, because that may be the only thing that they will feel and will cause them to do the things that they should do in an orderly system of nations?

Mr. GOLDY. Let me say that we are having a little difficulty here in communicating. Let me see if I can clarify this.

Under the grant of authority that we are objecting to, the tariffs would have to be raised or lowered on a most-favored-nation basis. That would be for everybody. It wouldn't be zeroed at the Japanese at all. That is a general authority to raise categories of tariffs or lower categories of tariffs.

Mr. ARCHER. Let me stop you just a minute there and say that that could be used effectively against product sectors where the big volume comes from Japan, and even though it is an across-the-board authority, it could be used on sector areas where Japan is the major contributor.

Mr. GOLDY. No, I don't think so. I think you would find that everybody makes automobiles now.

Mr. ARCHER. I wasn't just saying automobiles, but the electronics industry, for example, which is majorly supplied in this country by Japan, could be picked out and used as an effective negotiating tool with the Japanese.

Mr. GOLDY. The specific section of the bill dealing with what you are talking about is section 301, which contains the retaliatory authorities.

The proposals on that specific are to amend the authorities to give the President the kind of authority that you are talking about to deal with that specific type of situation involving a specific country.

You are talking about antidumping; you are talking about countervailing duties; you are talking about all of the situations that deal with a specific problem of a specific industry where unfair advantage is being taken of the American market. We support those authorities.

Mr. ARCHER. I still believe that we have to give the President and his negotiators tools that are effective tools in these negotiations and that, if we do not, that we will let others play by rules that we don't play by, and that we are going to ultimately suffer in the long run.

Moving to another subject, what is your feeling about the provisions in the trade bill with respect to underdeveloped countries?

I believe you say in your statement that you support the provision that all goods produced there should come in without restriction or tariff, under a general preference.

Mr. GOLDY. The chamber favors the provisions on generalized tariff preferences for the less developed countries. We feel that it ought to be applied, though, along with the other developed countries of the world. What we want is a generalized agreement among the developed countries of the world. We are concerned that these other countries have been going out developing specialized tariff preferences which provide preferences in their markets and which, in turn, give them special arrangements for exports to the developing countries' markets.

We think this is a very dangerous situation.

In years past, Presidents of the United States have said that they have favored generalized tariff preferences for the developing countries, that it ought to be done by all the developed countries together.

The other developed countries have provided the authorities with which to develop that type of arrangement. The United States has not yet done this. We say it is long overdue; the President has asked for the authority now, and we recommend that it be given to him.

Mr. ARCHER. If the administration proposals, or other proposals for change in the tax treatment of income from American investment

abroad are successful, are we not opening the door to some real problems with this provision for underdeveloped countries in that the other nations of the world can go into those countries, invest their capital, produce goods, and then ship them freely into the United States without our capability of having any tool to defend against this and with our own corporations, if the tax treatment is changed, being at such a disadvantage to invest in those very same countries that we will not be able to get our share of that business?

Are we not really laying the predicate for some real difficulties down the line?

Mr. GOLDY. With respect to the tax part of it, the whole thrust of our recommendation is that we do not impose on American corporations any tax disabilities that our competitors from abroad do not have in these developing countries.

Mr. ARCHER. I understand that, but assuming that tax proposals eliminating "deferred" are enacted, then would you still support the free and open door for importation of products from under-developed countries?

Mr. GOLDY. The answer is that in order to deal with the broader problem of our access to the resources of those countries to avoid the specialized tariff preference arrangements which the other developed countries are working out with them, which is very dangerous for the long-range interests of the United States, yes, I would be in favor of it.

In the event that there were special problems that arose for the reasons you mention, and I hope this doesn't occur, I hope we don't handicap our corporations going over to these markets, but if we put a tax handicap on them, and other nations' corporations went in and developed businesses, I think we would want to look at it at that time and make appropriate modifications.

But I think the important issue now is to give the President the authority to work out the generalized agreement among all the developed countries for these preferences. Then, if that were true, I don't believe that the United States would be subject any more than other countries to the imports from these developing countries as a result of their moving toward an economic development position.

In any case, my answer to you would be that I hope that the Congress doesn't put that kind of a burden on our corporations, but, if there were, I would hope that the bigger issue of working out the problem of avoiding these specialized preferences that other countries have been putting into effect overrides the concern that you are talking about at this point.

Mr. ARCHER. Thank you very much.

Mr. ULLMAN. Thank you very much.

Let me ask just one final question. That is with respect to your opposition to the balance of payments provision. We have had a very serious balance of payments deficit, with Japan primarily. There is a real danger of developing a balance of payments deficit with Europe, I think, in the immediate future.

I have a feeling that we should deal directly some way with that problem.

You have taken the position that the other tools are enough. I wonder; would you comment.

Mr. GOLDY. First, under the existing GATT arrangements, countries can impose temporary import quotas to deal with serious balance of payments problems. That is authorized by GATT. The surcharge of the kind that the President imposed a year and a half ago in August 1971, never came to a final resolution in the GATT, but every indication was that the other GATT members felt that that was not authorized under GATT.

We don't think that measures that are not authorized by GATT should be used.

Second, when the President did impose the surcharge, he found authorities under which to do it.

The third point, and I think this is the most important one, is that in the Committee of Twenty discussions which are going forward toward international monetary reform, among the items, among the matters being considered are methods for facilitating balance of payments adjustments to deal with the very problem that we are talking about.

It would be far better to, in effect, conclude successfully that negotiation and have an internationally agreed upon procedure by which these balance of payments adjustments occur rather than our going at it unilaterally in a way that is not authorized by GATT.

Part of our problem with going at it unilaterally in a way not authorized by GATT is that it can be self-defeating. The Congress could authorize the President to do it and the President can do it, and if it is not approved by GATT they can take retaliation which would tend to counterbalance and offset the effects.

One last point is that what we have done has gone through two devaluations and two runs of revaluations of currencies.

Currencies are still floating, so that, in effect, there is an automatic constant readjustment at the present time of currencies to take into account the balance of payments deficits and the balance of payments problems we are experiencing and other countries are having, including the balance of payments surpluses that others have.

So that, in effect, you have at the present time an automatic mechanism working to balance out these effects.

Our basic position is that if we could break down the barriers to trade, if we can deal with some of the problems of unfair trade competition that Mr. Archer has been alluding to, if we can do that through the authorization in H.R. 6767, plus the revaluation, plus the devaluation, plus the arrangements that are being worked out in the monetary area, we think that it would then be possible for the United States to deal with these problems without having to resort to any measures that are not authorized under the GATT and for which other countries could take compensation.

Mr. ULLMAN. Thank you very much, Mr. Goldy, and the rest of you, for a very able presentation.

Mr. GOLDY. Thank you.

Mr. ULLMAN. Our next witness on behalf of the Industrial Union Department of the AFL–CIO is Mr. Paul Jennings.

Mr. Jennings, we are pleased to welcome you before the committee.

If you would further identify your colleagues we would be pleased to hear you.

STATEMENT OF PAUL JENNINGS, INDUSTRIAL UNION DEPARTMENT, AFL–CIO, ACCOMPANIED BY JACOB CLAYMAN, ADMINISTRATIVE DIRECTOR, AND JOCELYN GUTCHENS, ECONOMIST

Mr. JENNINGS. Mr. Chairman, I am Paul Jennings, president of the IUE and chairman of the Industrial Union Department's Committee on International Trade.

With me I have the industrial union's administrative director, Mr. J. Clayman and along side of me Mrs. Jocelyn Gutchens, an economist with Stanley Ruttenberg's corporation.

Mr. ULLMAN. We are pleased to welcome you.

Mr. JENNINGS Mr. Chairman, I am delighted to appear before you here today to speak on behalf of the Industrial Union Department of the AFL–CIO on what I believe is one of the most important issues facing the nation and Congress today.

The Industrial Union Department consists of 60 international unions representing in excess of 6 million union members.

Our foreign trade policies have produced a situation best described as a shambles. We had a trade deficit of more than $6.4 billion last year, two devaluations of the dollar within 14 months, more than a million jobs lost to imports in a 5-year period, increasing discrimination against U.S. products abroad, a hemorrhage of U.S. capital and technology, and no relief in sight.

We in the labor movement are often asked why labor, a traditional supporter of free trade, has changed its position on international trade matters. I would like to take this opportunity today to explain the labor position to you, and to demonstrate that it is not labor that has changed, but the situation.

U.S. foreign trade policies which the labor movement supported were developed at a time when the world was a quite different place than it is today, and were shaped by the excesses and dislocations of the depression and World War II. What was true then no longer applies to today.

One, the United States no longer dominates world trade as it did in the late forties and fifties. Our share of the world exports has dropped steadily during the past decade and now stands at only 12.5 percent compared to 16 percent in 1960.

Moreover, although our exports increased during this period, they did not increase as fast as imports. In fact U.S. imports increased at a rate about 15 percent higher than the rate of increase of world imports.

Two, in the immediate postwar period the United States was the only major industrial nation which had not suffered the terrible physical and economic devastation of World War II.

Neither the European nations nor Japan were in any position to compete with us in the world markets. But today the story is quite different. The European Economic Community and Japan have long since fully recovered—with substantial U.S. help—so that they are not only able to compete with us on an equal basis but in many areas they can surpass us.

Three, the rapid advance of technology, patricularly in communications and transportation has led to a much greater international economic independence than formerly existed. Business and industry have

been quick to take advantage of this technological revolution, using the multinational form of corporate organization to shift capital, technology and management from country to country in a successful search for maximum profits.

In the IUD, our chief responsibility is simply to advance the interests of working men and women. The priority business of unions is, and always will be, related to jobs, wages, working conditions, and job security.

Understandably, this has to condition the union view. It is the primary focus for union perspective on the trade issue, just as it is for the development of our position on any national, social or economic issue.

However, union concern with jobs and job security is not and should never be narrowly construed. It is not a case of tunnel vision. Far from it. The unions I represent are concerned with jobs and employment in the broadest sense.

We are concerned with the problems related to the total job supply. We want to make sure that the U.S. economy can always provide sufficient job opportunities to give every man and woman who wants to work, a decent, well-paid, productive job.

We are concerned with maintaining and improving the standard of living of working men and women and we understand this to mean an improvement in both quality and quantity.

Our primary interest is, of course, in making life better for American workers but we would also like to see an improvement for workers in other countries as well.

We are concerned with the implications of a service-oriented economy, as contrasted with a goods producing economy, particularly its impact on the standard of living.

These are the concerns that influence union perspective on the trade issue. They are not new. The differences between the thinking of the unions on trade issues twenty years ago and today is not due to any shift in union perspective, or union interest, but is in response to the profound changes in world trade patterns and practices, that have taken place since World War II. Indeed, it is not the unions that have changed. The situation has. But while conditions—institutions—and even concepts have been undergoing these changes, we are only beginning to realize the full implications.

It is these concerns that led the IUD to take a second look at our foreign trade policies, to see if they were effectively meeting our international trade problems. Obviously they are not. Instead of solving the problems, our present foreign trade policies are creating them.

One, U.S. employment has suffered. Since 1966 imports have risen at an annual average rate of approximately 20 percent. Exports on the other hand have increased at an average annual rate of only 11 percent. We have estimated the resulting loss in U.S. job opportunities to be more than one million.

Two, U.S. capital has been encouraged to go overseas instead of being invested in the United States. U.S. direct investment in foreign countries increased from $32 billion in 1960 to more than $86 billion in 1971 on a book value basis. (When put on a market value basis, it could be as high as $140 to $150 billion.)

In fact, capital investment overseas increased at a faster rate than capital investment within U.S. borders.

In that same eleven year period of 1960–71, overseas investment grew at an average annual rate of 15 percent, while domestic investment increased by only 11 percent a year.

Our factor behind the increase in foreign direct investment is U.S. tax policy, which creates an incentive for overseas investment. By taxing profits only when they are repatriated, not when earned, U.S. policy encourages reinvestment abroad.

Providing dollar for dollar credit on taxes paid overseas further encourages foreign investment. As long as it is more profitable for U.S. companies to invest in foreign facilities than in the United States, we can expect the flow of capital to continue.

Mr. Chairman, I would like to here insert in my statement the material that is in the longer document, the outflow of capital.

The outflow of capital means one thing to the labor movement, and that is the loss of jobs. To the extent that U.S. capital is invested overseas, it is not available for investment in the United States. When U.S. capital is invested overseas, jobs are created overseas—not in the United States.

There has been much public discussion in recent months concerning the impact of foreign direct investment on domestic employment in the United States. Both the companies making the investment—the multinationals—and the administration have been trying very hard to "prove" that foreign investment leads to an increase in domestic employment. But despite some fast footwork with a bewildering variety of figures, the proof has not been made. Nor is it likely to be simply because it is not the case. Let us take the employment studies which are most often quoted.

1. The chamber of commerce measured employment growth of 121 companies between 1960 and 1970. The chamber reported that domestic employment of these companies increased by 31.1 percent.

This compares with total U.S. employment growth of 30.3 percent. When the growth due to mergers and acquisitions is eliminated from the MNG figure, real growth of the 121 companies was only 20 percent.

2. The Emergency Committee for American Trade surveyed the employment growth of 74 companies between 1960 and 1970. The ECAT companies reported a 36.5 percent growth. Again eliminating growth due to mergers and acquisitions, growth dropped to only 21.6 percent compared to the national employment growth of 30.3 percent.

3. The Department of Commerce surveyed 298 MNCs between 1966 and 1970. Domestic employment growth in these companies was reported to be 11.1 percent compared to total U.S. employment growth in the same period of 10.4 percent.

Eliminating the one-fourth of domestic growth that the Commerce Department estimates is due to mergers, the growth rate of the 298 companies drops to 8.3 percent. Even if this is compared to only that part of domestic employment that is in the private sector, the U.S. total figure is better than the MNC figure; 9.2 percent for the United States compared to 8.3 percent for the MNCs.

4. On page 58 of the recent report, the Council on International Economic Policy, apparently using figures obtained from the Commerce Department survey of the 298 MNCs, states that overall U.S. private sector employment grew only 1.8 percent between 1966 and

1970 while the domestic employment attributable to the multinational corporations grew at an average annual rate of 2.7 percent a year.

How the CIEP arrived at this conclusion is somewhat of a mystery. We have checked with the employment tables published by the Council of Economic Advisers in its Report of January 1973 and with the data published by the Department of Commerce on the 298 MNC company survey.

Our calculations show that domestic employment growth in the private sector for the United States as a whole in this period averaged 2.3 percent a year, not 1.8 percent, and that, when account is taken of the MNC growth due to mergers and acquisitions, the average annual growth rate of the 298 companies was only 2.1 percent a year, or less than the rate for the United States as a whole.

However, the outflow of capital in the form of direct investment has had an undeniable effect on the growth of employment overseas. The chamber of commerce companies claim to have increased overseas employment by more than 100 percent, adding more than 500,000 jobs to the 459,000 they had in 1960. The ECAT companies reported that they added some 900,000 jobs in their foreign subsidiaries between 1960 and 1970. And the 298 companies in the Department of Commerce survey showed an increase in overseas employment between 1966 and 1970 of 23.1 percent or 558,000 jobs.

Getting back to the summary, Mr. Chairman, just as U.S. policies encourage the export of capital, they also encourage the export of technology.

The extent of the increased flow of American technology is measured in the increase in revenues from fees and royalties that shows up in our balance of payments.

In 1960 this amounted to $840 million. Last year, 1972, revenues from this source had increased to $3.0 billion, almost four times as much technology flows in all directions, of course. However, on the basis of fees and royalties paid to foreigners for the use of foreign technology in the U.S., we see that the U.S. exports twelve times more technology than we import.

4. U.S. trade policies have not been able to discourage the increasing utilization of highly protectionist policies by other nations.

We have watched complacently while other nations have raised new and more discriminatory trade barriers, making it more and more difficult for U.S. products to compete in world markets. We have stood by while preferential trading agreements between selected nations made a hash of the most-favored-nation treatment concept on which our foreign trade policies are based.

Such non-tariff barriers as the variable levy of the Common Market, the value added tax, administrative guidance as practiced by Japan, associated memberships with the big trading blocs, all act to make it difficult or impossible for U.S. made products to compete.

This is confirmed by the President's Council on International Economic Policy which in its recent report indicated that the United States was the chief victim of national import restrictions. The Council reported that "Import barriers in virtually every developed country are highest and most restrictive in many areas where our greatest competitive advantage exists", and described the barriers against

our agricultural and high technology goods, where we have a competitive advantage "particularly frustrating".

5. Labor sees the spread of the multinationals as an awesome and ominous development. It brings no comfort to us that 15 percent of the gross world product is already produced by the multinationals and that it is estimated that by 1985 about 300 giant corporations will produce more than half of the world's goods and services.

Neither does the fact that two-thirds of these giants are U.S. based ease our concern.

We are apprehensive when we are told by the U.S. Tariff Commission that some $268 billion in short term liquid assets, twice as much as the total value of official monetary reserves, is controlled by private institutions on the international scene and can be and probably were used to stimulate the world monetary crisis that produced a devaluation of the U.S. dollar.

Nor can we believe it is a good thing to have so much of the world's production under the control of a few corporations organized in a way that by its very nature permits an evasion of social responsibility, encourages the worldwide exploitation of working people and accelerates the trend to a service economy in this country.

These then are the problems we see. Some of them, of course, were foreseen even in the forties and fifties when our foreign trade policies were being developed; others are new.

For a long time, however, the labor movement was confident that the problems could be handled. We were persuaded that there was already in place a viable strategy to counteract any temporary dislocations that might occur as a result of foreign trade policies. This strategy was based on our unchallenged and therefore presumably permanent technological advantage, on adjustment assistance, voluntary agreements, and international fair labor standards.

All four have turned out to be fairytales.

1. The technological lead that was supposed to make us invulnerable to serious competition in world trade is fast disappearing. We had thought we would always be able to compete successfully because our technological lead would keep our productivity high enough to offset any disadvantage due to our high wage structure. Even if there might be some products that were more efficiently produced in other countries than in the United States it was thought we could shift to production of higher technology intensive goods in which we would always have a commanding lead. Events have proved us wrong.

In 1972 for the first time in modern history, U.S. imports of manufactured good exceeded exports; $33.6 billion exported, but $37.7 billion imported.

Since we were already net importers of the other two product categories, that is, foods and crude materials, the loss of our trade surplus in manufactured goods leaves us with nothing to fall back on.

Even in technology-intensive products, our trade surplus was gradually being eroded throughout the sixties. Although exports of technology-intensive products increased during this period they did not increase as fast as imports, which between 1957 and 1971 rose at an average annual rate of 64 percent compared to a 13 percent a year rise for exports.

In an increasingly service-oriented economy, what are we supposed to shift to?

2. Adjustment assistance provided nothing at all the first seven years after enactment in 1962 of the law authorizing the program and since 1969 only the barest minimum has been provided.

Although literally hundreds of thousands of workers have been displaced by the rising tide of imports, very few of them have had the benefit of any substantial help in "adjusting" to the loss of their jobs. For fiscal year 1974, President Nixon's budget calls for providing assistance to approximately 20,000 displaced workers, at a total cost of $43 million.

This is expected to give an average of weekly unemployment benefits of about $70 to each displaced worker for an estimated 32 weeks. No provision at all is made for retraining. Even if it had been, the program is wholly inadequate.

If we take just the three industries where there has been a high quotient of foreign direct investment, the non-electrical machinery, electrical machinery, electrical equipment and transport equipment industries, there is a job loss between 1966 and 1972 of 292,400 jobs.

To give all of these workers the adjustment benefits—even on the modest scale presently being proposed by the administration—would have cost the Federal Government $658 million. If training were also provided, at the average trainee cost of $1600 presently incurred in federally supported man-power programs, the total additional cost to the government would have been $349 million, or a grand total adjustment cost of more than $1 billion.

This, it should be remembered, would take care of the workers in only three industries. It would not cover the displaced workers in the steel indstry, or textile and garment workers, office and business equipment workers, or others. Nor would it have provided for relocation. No one in or out of the administration has seriously proposed that we spend a billion dollars or more for adjustment assistance.

3. Voluntary agreements were another safety device supposedly able to take care of any special situations where U.S. industry was seriously threatened by imports.

However, the voluntary agreement has been rarely applied, and only moderately effective. The long term cotton textile agreement of 1961–62, initially involving some 30 nations with a substantial interest in international trade in cotton textiles and apparel, has been perhaps an effective program, but even here it should be noted that the penetration of imports into the U.S. cotton textile market has increased. The voluntary agreement on steel products in 1968 was a direct response to the threat of quota legislation, which in turn was in response to the increasing penetration of the U.S. steel market by imports from Japan and the European Economic Community.

But despite the agreement, the percentage of U.S. steel consumption supplied by imports rose from 13.7 percent in 1969 to almost 18 percent in 1971. It dropped slightly last year but we are still no better off than we were in 1968 when the problem first became sufficiently acute to force our own diplomats to do something about it.

The only other significant voluntary agreement of any significance is the one negotiated on a bilateral basis with four Far Eastern countries in 1971 pertaining to wool and man-made fibers and apparel.

This agreement involving as it does a wide range of products has, in part, been effective but has demonstrated the need for a similar

agreement with all countries exporting textile and apparel products made from wool and man-made fibers.

4. The third alternative that the labor movement believed was open to them as a viable strategy to promote job security and worker interests as against the potentially unfair advantage that might accrue to business and industry in pursuit of maximum profits under conditions of free trade, was the establishment of international fair labor standards.

It was thought by many of us in the labor movement that international fair labor standards could be an effective curb on the potential for exploitation of labor that is inherent in unrestrained adherence to the principles of free trade.

But we know now that international fair labor standards are no further along today than they were in 1960, and moreover they are not likely to get any further in the foreseeable future. It is not a practical approach for two reasons.

There is not now and is not likely to be any agreement as to what the international standards should be, and even if there were there is no way to enforce them.

The industrial countries of the world naturally would want standards to be relatively high, equal or at least nearly equal to their own.

The less developed countries on the other hand would start a relatively lower standard. Even assuming a standard could be set, there is no way short of an international form of government that standards can be enforced. We would have to rely on voluntary compliance which, as the labor movement knows only too well, is a very weak reed on which to lean, at best.

Since these reinforcements on which labor relied to cushion the admitted negative effects of a so-called "free trade" policy turned out to be nothing more than flimsy stage props, designed for illusion rather than utility, labor decided it was time to step back a bit, abandon the conditioned response and take a second look at the problems to see what needed to be done to resolve them.

If our foreign trade policies are to provide effective answers to the problems facing us, they must meet two criteria:

1. They must lend themselves to the development and maintenance of a strong healthy and growing domestic economy. They must be completely consistent with national social and economic goals.

2. They must lead to a coordinated effort on the part of other nations to reduce existing trade barriers. We can no longer afford to be the only country in the world with an open door policy.

The Burke-Hartke bill, which is before this committee would achieve these objectives. It would strengthen the domestic economy by developing an orderly marketing procedure for imports, by removing the incentive of foreign investment, applying a tourniquet to the hemorrhage of capital and technology, thereby increasing jobs, and establishing controls over the operations of the multinationals. It would also encourage other nations to remove the present discriminatory barriers that have restricted access to world markets for U.S. products.

Instead of relying on vague promises of assistance we would be able to bargain from strength at the forthcoming negotiations. In the long run, it would move us closer to the ideals that we all are interested in achieving—a world without barriers, a world without discrimination, a world without exploitation.

[Mr. Jennings' prepared statement follows:]

STATEMENT OF PAUL JENNINGS, CHAIRMAN OF THE INDUSTRIAL UNION DEPARTMENT, AFL-CIO COMMITTEE ON INTERNATIONAL TRADE

Foreign trade policy is one of the most important issues facing the nation and the Congress today. I am grateful to you for the opportunity to appear before this Committee to express my views.

In recent months, the labor movement has come in for considerable criticism—in some instances quite sharp—from many different groups in this country; academicians, opinion molders, big business, public interest groups and even the government, because of its position on the international trade issue. Some of our oldest and staunchest supporters and allies, apparently feel that the labor movement has betrayed them—that our position represents a kind of withdrawal into a Neanderthal shell. They express surprise—either mock or real—claiming that labor has abandoned its former ideology for a narrow protectionist stance. Nothing could be farther from the truth. I would like to take time today to demonstrate why our critics' concern is misdirected, and to show how the union position, far from being backward, is both progressive and constructive.

In the IUD, our chief responsibility is simply to advance the interests of working men and women. The priority business of unions is, and always will be, related to jobs; wages, working conditions; and job security. Understandably, this has to condition the union view. It is the primary focus for union perspective on the trade issue, just as it is for the development of our position on any national, social or economic issue. However, union concern with jobs and job security is not and should never be narrowly construed. It is not a case of tunnel vision. Far from it. The unions I represent are concerned with jobs and employment in the broadcast sense.

We are concerned with the problems related to the total job supply. We want to make sure that the U.S. economy can always provide sufficient job opportunities to give every man and woman who wants to work, a decent, well-paid, productive job.

We are concerned with maintaining and improving the standard of living of working men and women and we understand this to mean an improvement in both quality and quantity. Our primary interest is, of course, in making life better for American workers but we would also like to see an improvement for workers in other countries as well.

We are concerned with the implications of a service-oriented economy, as contrasted with a goods producing economy, particularly its impact on the standard of living.

These are the concerns that influence union perspective on the trade issue. They are not new. They are the same concerns that have shaped union thinking in years past. The difference between the thinking of the unions on trade issues twenty years ago and today is not due to any shift in union perspective, or union interest, but is in response to the profound changes in world trade patterns and practices, that have taken place since World War II. Indeed, it is not the unions that have changed. The situation has. But while conditions—institutions—and even concepts have been undergoing these changes, we are only beginning to realize the full implications.

Instead of a situation where the U.S. holds the dominant position in world trade, wrapped comfortably in a security blanket of undisputed technological leadership over the rest of the world and generously providing assistance to the war torn nations to help them back on their feet, the United States today is faced with the hard fact that it is no longer the single dominant force in international trade, that it has lost the competitive advantage it previously enjoyed, and it is unlikely to ever again regain unchallenged superiority.

Instead of a world where we could expect the institutional arrangements which we had been instrumental in establishing to function effectively to regulate international trade and finance, such as GATT and the Bretton Woods monetary agreement, we find that nothing is working right. The institutional arrangements we helped develop are not geared to modern conditions and are no longer capable of making the adjustments necessary to maintain a smoothly working internationally-interdependent world economy.

Instead of the old concepts that seemed reasonable and correct at the time and which seemingly provided a relevant framework for the development of international trade policy in the 30's and 40's, we are finding that the old theories don't work. Since they do not match today's realities, we must develop new concepts that do.

While some have only reluctantly been willing to admit that these changes have been taking place, the unions—faced as they are with an overriding ob-

ligation to concern themselves with the present day problems of jobs and better working and living conditions of working people—could not afford to ignore what has been going on. Working men and women, as they say in the ads—have only one life to live. The union obligation is to make sure that at least as far as work is concerned, their life is a good one. Of course, the unions are concerned about the future, but what is more important is to assure a decent life for working people today. Unions have had to bite the bullet. They have had to face reality and take a practical approach. The international trade policy that I advocate here today reflects that approach.

OUTMODED CONCEPTS

The basic concepts on which our foreign trade policy has been established are certainly not unfamiliar to the IUD. For many years, we were "true believers"—counted as "good guys" by our liberal friends—giving strong support to both the theory and practice of the conventional wisdom as it applied to international trade. But gradually as it became increasingly clear that these concepts bore no relation to fact, we recognized the discrepancies and adjusted our policies to fit the situation. Let me demonstrate what these discrepancies are.

1. The theory of comparative advantage has long been the keystone of our foreign trade policy. The theory makes two assumptions; that the factors of production are fixed and there will be complete freedom of trade. That being the case, the theory holds that each country should concentrate on those products which it can produce at the lowest relative cost. If other countries could produce for export at a lower cost than the United States, that would be all right because the U.S. could always shift to capital intensive items where our technological supremacy would give us a comparative advantage. Although the theory may have correctly described the situation that existed at the time it was developed and discussed in the 18th and 19th centuries, it has no validity today. The factors of production are not fixed. Technological, economic and political developments have made possible a fluidity of the factors of the production that quickly equalizes the advantage that one country may have over another. Both capital and technology move rapidly across national borders, and with modern scientific methods, even such natural advantages as land and power are only temporary. Only labor is immobile, and as such becomes the factor of production most vulnerable to exploitation.

Here are a few examples of the extent of the international movement of capital and technology.

Item: U.S. direct investment in foreign countries increased from $32 billion in 1960 to more than $86 billion in 1971 on a book value basis. When put on a market value basis, it could be as high as $140 to $150 billion. In fact, capital investment overseas increased at a faster rate than capital investment within U.S. borders. In that same 11 year period, 1960–71, overseas investment grew at an average annual rate of 15 percent, while domestic investment increased by only 11 percent a year.

Item: The Tariff Commission has reported that private institutions on the international scene controlled some $268 billion in short term liquid assets at the end of 1971. To give this some perspective, this is almost twice as much as the total official international monetary reserves, or about four times the total income of all U.S. industries in that year. It should also be noted that the lion's share of these assets were controlled by U.S. based multinational firms and banks.

Item: The extent of the increased flow of American technology is measured in the increase in revenues from fees and royalties that shows up in our balance of payments. In 1960 this amounted to $840 million. Last year, 1972, revenues from this source had increased to $3.0 billion, almost four times as much.

Item: Technology flows in all directions of course. However, on the basis of fees and royalties paid to foreigners for the use of foreign technology in the U.S., we see that the U.S. exports twelve times more technology than we import. Nevertheless the increase in imported technology is almost as dramatic as the increase in technology exports. Between 1960 and 1971 fees and royalties paid to foreigners tripled.

The second assumption underlying the theory of comparative advantage is equally out of date. Unfortunately neither trade nor competition is free. Indeed it is doubtful if it ever was. For a variety of reasons, both economic and political, nations have always adopted measures to restrict the freedom of trade. Although no country is entirely immune from criticism on this score, the United States has fewer restrictions on trade than any other country.

Import barriers, both tariff and non-tariff, are a serious detriment to the free flow of goods and services. According to the President's Council on International Economic Policy the U.S. is the chief victim of these barriers. The Council reported that "Import barriers in virtually every developed country are highest and most restrictive in many areas where our greatest competitive advantage exists," and described the barriers against our agricultural and high technology goods, where we have a competitive edge as "particularly frustrating."

In addition to the restrictions on trade established through formal government policies, freedom of trade is also inhibited as a result of the awesome growth of the multinational form of corporate organization. Although defended by some as the ultimate expression of free market dynamics, we believe that the growth of the multinationals, if allowed to continue uncontrolled and uncontrollable, will lead to complete dominance of world commerce by fewer and fewer but larger and larger companies ultimately completely stifling free competition to the detriment of consumers and working people throughout the world. At the present time it is estimated that 15 percent of the gross world product is produced by the multinationals. At a growth rate of 10 percent a year—faster than the economies of many nations—it has been estimated that by 1985 about 300 giant multinational companies will produce more than half of the world's goods and services. It is no comfort to us that two-thirds of these giants are U.S. based.

2. In the 50's and early 60's the IUD along with other "good guys" was happily content in the belief that the U.S. technological lead made us invulnerable to serious competition in world trade. Even if there might be some products that were more efficiently produced in other countries than the U.S. it was thought we could shift to production of higher technology intensive goods in which we would always have a commanding lead. Moreover, we believed that our trade surplus in manufactured goods would always pay for the raw materials needed by our economy, and in addition, could make up for any deficit in our balance of payments caused by our foreign military and aid commitments. But like the theory of comparative advantage, events have proved us wrong.

Item: In 1972 for the first time in modern history, U.S. imports of manufactured goods exceeded exports; $33.6 billion exported, but $37.7 billion imported. Since we were already net importers of the other two product categories, i.e., foods and crude materials, the loss of our trade surplus in manufactured goods leaves us with nothing to fall back on.

Item: Even in the technology-intensive products, our trade surplus was gradually being eroded throughout the 60's. Although exports of technology—intensive products increased during this period they did not increase as fast as imports, which between 1957 and 1971 rose at an average annual rate of 64 percent compared to a 13 percent a year rise for exports.

3. Labor has watched with increasing concern while the thing that the foreign trade experts told us could never happen, actually did happen. For many years labor was constantly reassured that all would be well if we would only be patient. We were told, and won over by the arguments that adjustment assistance would ease the transition for any workers displaced by the inexorable workings of the laws of comparative advantage; that voluntary agreements between the United States and its major competitors would alleviate any special situations where national trade policies created an unfair advantage for one country over another, and that the establishment of international fair labor standards would be the ultimate equalizer among nations.

The arguments sounded convincing to us in the IUD, especially since the workers we represent are concentrated in just those segments of the economy where the United States was supposed to be unbeatable, the manufacture of high technology goods. They became especially attractive when combined with our unchallenged faith in the ability of the U.S. economy to meet foreign competition. The ever improving productivity rates that typified U.S. industry was seen as the answer to low-wage foreign competition. It was thought that productivity improvements would always be able to offset the generally higher scale of wage rates in the U.S. and would permit U.S. industries to develop unit labor costs competitive with other industrialized nations. Our faith was misplaced. For more than ten years we have watched and waited in vain for these alternatives to materialize; to come to our rescue.

ADJUSTMENT ASSISTANCE

Adjustment assistance produced nothing at all the first seven years after enactment in 1962 of the law authorizing the program and since 1969 only the

barest minimum has been provided. Although literally hundreds of thousands of workers have been displaced by the rising tide of imports, very few of them have had the benefit of any substantial help in "adjusting" to the loss of their jobs. After the initial seven year famine, the first year "feast" of adjustment provided exactly 125 workers with assistance amounting to approximately $250,000 or about $2,000 apiece. This was supposed to provide allowances for the period of unemployment, relocation costs, and whatever retraining was necessary to help the worker get a new job. However, almost all of the money went for unemployment benefits.

The training part of the program has never been anything more than a vague promise. Even in 1972, when the program was supposed to be fully operative, the Employment Service reported that only 11,000 workers were certified for assistance, and of these not quite 1500 received training. Instead of retraining to enable them to shift to the higher technology jobs in which the United States is supposed to be concentrating, the adjustment assistance program provided unemployment benefits to each displaced worker for an average of 34 weeks, with an average payment of $56 a week.

Although the program has grown somewhat in the intervening years, it still falls far short of any realistic goal. For fiscal year '74, President Nixon's budget calls for providing assistance to approximately 20,000 displaced workers, at a total cost of $43 million. This is expected to give an average weekly unemployment benefit of about $70 to each displaced worker for an estimated 32 weeks. No provision at all is made for retraining. If it had, the cost to the federal government would have been an additional $30 million—an extremely unlikely prospect given the cost-consciousness of the administration this year. And that is only the tip of the iceberg.

The real problem with adjustment assistance is that no one has ever been willing to face up to the costs or consequences of a meaningful adjustment program. If we take just the three industries where there has been a high quotient of foreign direct investment, which leads to a decline in U.S. employment; i.e., the non-electric machinery, electric equipment, and transport equipment industries; we find a job loss between 1966 and 1972 of 292,400. To give all of these workers the adjustment benefits—even on the modest scale presently being proposed by the administration—would have cost the federal government $658 million. If training were also provided, at the average per trainee cost of $1600 presently incurred in federal supported manpower programs, the total additional cost to the government would have been $349 million, or a grand total adjustment cost of more than $1 billion. This, it should be remembered, would take care of the workers in only three industries. It would not cover the displaced workers in the steel industry, or textile and garment workers, office and business equipment workers, or others. Nor would it have provided for relocation.

No one has seriously proposed that we spend a billion or more for adjustment assistance. Instead, what the administration has proposed is that adjustment should be given another chance; that we should try it again, only this time do it better.

The administration's Trade Reform Act would relax the criteria for certification for adjustment assistance, and add some minor benefits such as a $500 job search allowance and a $500 relocation reimbursement, but it would provide even less to the displaced workers than the present inadequate program. Workers displaced by shifts in trade patterns would be lumped together with all other unemployed workers displaced by circumstances beyond their control such as automation, government procurement policies, etc. Federal standards would be mandated for benefit payments, but not for eligibility or for duration of payments. In the case of workers displaced by imports, the proposed new federal standards are lower than the old.

The one new interesting feature which might have made a significant improvement in the present program is nullified by the administration's general policy to dismantle federal domestic programs in the name of decentralization and local autonomy. This is the provision that mandates priority in referral to manpower training programs for those certified for adjustment assistance. Under the present system there is no provision for priority treatment for workers displaced by imports, and therefore these workers have had to compete with other manpower target groups for acceptance into the programs. Since federal manpower training programs have, by and large, been concentrated in areas serving the most disadvantaged they have not been available to the adjustment assist-

ance workers. The new system of priority referral theoretically corrects this situation and brings the promise of training closer to reality. But does it?

We believe that manpower training programs will not be any more available for adjustment assistance than they were in the past for two reasons: (1) The total federal manpower training budget has been severely cut, by about 25 percent below the 1972 levels (I am referring only to the manpower training and employability development programs, not to the job creation program—the Public Employment Program which of course has also been eliminated); (2) Under the manpower revenue sharing, control of the manpower programs is to be given to the mayors, county commissioners and governors. No provision has been included in either the President's trade legislation or under the proposed manpower revenue sharing to enforce the requirement that priority be given to adjustment assistance workers. Without any means of federal control, and with inadequate manpower funds available to them to meet established manpower needs, it is highly unlikely that the bright promises of the administration to make adjustment assistance an effective answer to trade dislocations will ever materialize.

VOLUNTARY AGREEMENTS

The second prop on which labor based its support of U.S. open door foreign trade policies, was the notion that voluntary agreements would be able to take care of any special situations where U. S. industry was seriously threatened by imports. Labor was persuaded that the voluntary agreement was the proper mechanism through which orderly marketing arrangements could be made in order to prevent severe and injurious disruptions in U.S. industry. However, the voluntary agreement has only rarely been applied. We have the Long Term Cotton Textile Agreement (LTA), of 1961–62, the steel agreement of 1968 and the agreement on man-made fibers of 1971–72. But this is all, despite the fact that at least 100 industries are especially import sensitive. The LTA was initially negotiated first on a short term basis, and followed a year later by a long term agreement involving the participation of some 30 nations that have a substantial interest in international trade in cotton textiles and apparel. Since the original negotiation, it has been periodically extended. It is worth noting however that even with the agreement, the penetration of imports into the U.S. cotton textile market has increased.

The voluntary agreement on steel products was a direct response to the threat of quota legislation, which in turn was in response to the accelerating penetration of the U.S. steel market by imports from Japan and the European Economic Community. However, the voluntary agreement has not proved effective in stabilizing the flow of steel imports. Although imports as a percentage of new supply decreased slightly in 1969 from the 1968 high of 16.7 percent to 13.7 percent, by 1971 imports had spurted ahead again to the point where an almost 18 percent of our total consumption of steel products was in the form of imports. The picture improved again slightly in 1972—imports dropping back to 16.6 percent of total supply—but all this did was to put us back where we were in 1968 when the problem first became sufficiently acute to force U. S. diplomats to press the point with our major competitors.

The only other voluntary agreement of any significance is the one negotiated on a bilateral basis, with four Far Eastern countries in 1970–71, pertaining to wool and man-made fibers and apparel. This agreement involving as it does a wide range of products has demonstrated the need for extending the agreement to all nations exporting textile and apparel items made of wool or man-made fibers.

It is important to point out that the concept of the voluntary agreement was developed and supported in the context of the recognized need for some sort of orderly marketing arrangement. Indeed, one of the factors behind labor's support of U. S. foreign trade policies in the fifties and early sixties was the recognition and general acceptance of the probability that there would be some times and some industries for which our trade policies wodul require the establishment of orderly marketing arrangements. What we find now, however, is that the voluntary arrangements are necessary to stop the flood of imports that threaten not just one industry here and there, but a good part of our industrial base.

INTERNATIONAL FAIR LABOR STANDARDS

The third alternative that the labor movement believed was open to them as a viable strategy to promote job security and worker interests as against the potentially unfair advantage that might accrue to business and industry in pur-

suit of maximum profits under conditions of free trade, was the establishment of international fair labor standards. It was thought by many of us in the labor movement that international fair labor standards could be an effective curb on the potential for exploitation of labor that is inherent in unrestrained adherence to the principles of free trade. But we know now that international fair labor standards are no further along today than they were in 1960, and moreover they are not likely to get any further in the foreseeable future.

Much effort has been put into establishing more effective coordination between unions on an international basis. The International Union Secretariats have performed a valuable service in this connection, bringing together information on collective bargaining problems, sharing data, and even assisting in activities to assure that employees in one country are not used as leverage to force concessions on the part of workers in another.

I hope and expect that this kind of coordinated effort among national unions will continue and increase. But this is a far cry from the establishment or enforcement of international labor standards. To expect that, is to expect the millennium. It is not a practical approach for two reasons. There is not now and is not likely to be any agreement as to what the international standards should be, and even if there were, there is no way to enforce them. The industrial countries of the world naturally would want standards to be relatively high, equal or at least nearly equal their own. The less developed countries on the other hand would want a relatively lower standard. Even assuming a standard could be set, there is no way short of an international form of government that standards can be enforced. We would have to rely on voluntary compliance which, as the labor movement knows only too well, is a very weak reed on which to lean, at best.

Since these reinforcements on which labor relied to cushion the admitted negative effects of a so-called "free trade" policy turned out to be nothing more than flimsy stage props, designed for illusion rather than utility, labor decided it was time to step back a bit, abandon the conditioned response and take a second look at the problems to see what need be done to resolve them. What we see is quite different from the rosy picture we had been led to expect.

We see lost jobs—we estimate more than a million job opportunities lost to imports since 1966.

We see an increasingly service-oriented economy, a situation that raises serious questions about our ability to maintain, let alone improve our standard of living.

We see a decline in the accessibility of world markets to U.S. products, and given our increasing dependence on imported fuel and other vital raw materials, a chronic trade and balance of payments deficit.

The problems that concern us most are the continuing and apparently unstaunchable outflow of capital, along with the increasing restrictions on the outflow of capital by the other developed countries; the ominous threat inherent in the uncontrolled spread of the multinationals; the continued increase in the use of non-tariff barriers and preferential trading agreements by other countries, all of which tend to discriminate against U.S. products in the world markets; the inward looking nature of our major competitors; and of course, the continuing deficit in our balance of payments threatening the stability of the dollar.

THE OUTFLOW OF CAPITAL

The outflow of capital means one thing to the labor movement, and that is the loss of jobs. To the extent that U.S. capital is invested overseas, it is not available for investment in the U.S. When U.S. capital is invested overseas, jobs are created overseas—not in the United States.

There has been much public discussion in recent months concerning the impact of foreign direct investment on domestic employment in the United States. Both the companies making the investment—the multinationals—and the administration have been trying very hard to "prove" that foreign investment leads to an increase in domestic employment. But despite some fast footwork with a bewildering variety of figures, the proof has not been made. Nor is it likely to be simply because it is not the case. Let us take the employment studies which are most often quoted.

1. The Chamber of Commerce measured employment growth of 121 companies between 1960 and 1970. The Chamber reported that domestic employment of these companies increased by 31.1 percent. This compares with total U.S. employment growth of 30.3 percent. When the growth due to mergers and acquisitions is eliminated from the MNC figure, real growth of the 121 companies was only 20 percent.

2. The Emergency Committee for American Trade surveyed the employment growth of 74 companies betwen 1960 and 1970. The ECAT companies reported a 36.5 percent growth. Again eliminating growth due to mergers and acquisitions, growth dropped to only 21.6 percent compared to the national employment growth of 30.3 percent.

3. The Department of Commerce surveyed 298 MNCs between 1966 and 1970. Domestic employment growth in these companies was reported to be 11.1 percent compared to total U.S. employment growth in the same period of 10.4 percent. Eliminating the ¼ of domestic growth that the Commerce Department estimates is due to mergers, the growth rate of the 298 companies drops to 8.3 percent. Even if this is compared to only that part of domestic employment that is in the private sector, the U.S. total figure is better than the MNC figure; 9.2 percent for the U.S. compared to 8.3 percent for the MNCs.

4. On Page 58 of its recent report, the Council on International Economic Policy, apparently using figures obtained from the Commerce Department survey of the 298 MNCs, states that overall U.S. private sector employment grew only 1.8 percent between 1966 and 1970 while the domestic employment attributable to the multinational corporations grew at an average annual rate of 2.7 percent a year. How the CIEP arrived at this conclusion is somewhat of a mystery. We have checked with the employment tables published by the Council of Economic Advisors in its Report of January 1973 and with the data published by the Department of Commerce on the 298 MNC company survey. Our calculations show that domestic employment growth in the private sector for the U.S. as a whole in this period averaged 2.3 percent a year, not 1.8 percent, and that, when account is taken of the MNC growth due to mergers and acquisitions, the average annual growth rate of the 298 companies was only 2.1 percent a year, or less than the rate for the U.S. as a whole.

However, the outflow of capital in the form of direct investment has had an undeniable effect on the growth of employment overseas. The Chamber of Commerce companies claim to have increased overseas employment by more than 100 percent, adding more than 500,000 jobs to the 459,000 they had in 1960. The ECAT companies reported that they added some 900,00 jobs in their foreign subsidiaries between 1960 and 1970. And the 298 companies in the Department of Commerce survey showed an increase in overseas employment between 1966 and 1970 of 23.1 percent or 558,000 jobs.

In addition to the impact on jobs, the large scale outflow of capital during the sixties has also had a serious impact on the international monetary situation. The accumulation of dollars in European money markets led directly to the recurrent monetary crisis which has forced abandonment of the Bretton Woods system and the repeated currency revaluations. As long as these capital outflows continue as before, without controls and without taking effective measures to correct the imbalances that presently exist, we can probably look forward to further devaluations. Instead of taking measures to correct the situation the administration has announced its intention to completely remove all capital flows by December 1974. And all this is being done at a time when other countries are increasingly looking for ways to check their own capital outflows.

THE THREAT OF THE MULTINATIONALS

The threat of the multinationals to the labor movement is not limited to its concern over the export of capital and jobs. Labor is also concerned that the multinatinal form of corporate organization by its very nature permits an evasion of social responsibility, encourages the world-wide exploitation of working people and, in this country, accelerates the trend to a service oriented economy.

The evasion of social responsibility is seen in the ability of the multinationals to take advantage of present tax incentives as well as of sophisticated cost accounting and bookkeeping practices to minimize taxes and maximize profits. The U.S. tax laws, which presently provide an incentive for overseas investment over domestic investment, have not only stimulated the export of capital and technology but have also resulted in a loss of tax revenue to the U.S. estimated at $3.3 billion in 1970. This would pay for a lot of public services that are desperately needed in this country. $3.3 billion, more than half the amount that is to be spent this year on general revenue sharing—distributed to state and local governments for necessary public services this year. It is about the same that is budgeted for natural resources and environment the next fiscal year. Actual taxes paid by MNCs in 1970 represented only 5 percent of the profits of the subsidiaries.

The trend to a service oriented economy raises serious questions for the labor movement, as it must for all Americans. Our standard of living is supported by a high wage economy, which in turn is the result of a high productivity—the highest in the world. Continued improvement in the standard of living must be based on continued improvements in productivity. But the service industries by their very nature are not as susceptible to improvements in productivity as the goods producing industries. Supporters of the multinationals and proponents of the continued export of our production capability abroad, argue that our fears are baseless, and that a service economy is not necessarily a bad thing. In this case, the labor movement has to be from Missouri; we would like to be shown. We believe that a considerable, careful study must be made before we are willing to let this country put itself into a position of complete economic dependency vis-a-vis the rest of the world.

THE DEMISE OF MFN

Perhaps the most disheartening aspect of the changing world trade picture is the demise of the principle of Most Favored Nation treatment. Although the U.S. always recognized that there would be special situations where there would have to be exceptions to MFN, nevertheless, we expected that MFN would keep the door open to American exports; keep world markets accessible to U.S. made products. We did not expect to have to overcome increasingly discriminatory barriers. However, access to world markets for U.S. products has become more and more difficult. Non-tariff barriers have proliferated. National policies such as the variable levy of the Common Market, the value added tax, administrative guidance as practices by Japan, preferential trading agreements among select groups of countries, associated memberships with the big trading blocs, all act to make it difficult or impossible for U.S. made products to compete.

The multinational corporations argue that they must establish manufacturing and distribution facilities overseas in order to get over the barriers that have been raised against U.S. products. We are inclined to believe them. But as far as we are concerned, getting over the barriers is not a satisfactory answer to the problem. We must find a way to make these barriers come down. A policy which starts from a premise accepting the continued existence of trade barriers and then develops a method of co-existence with the way things are, is not constructive. It does nothing to move us closer to the ideals of free trade. In fact, we believe it is a step back. We must develop a policy that will gain the cooperation of the rest of the world, that will reduce existing rade barriers, strengthen the U.S. economy, and lead to continued improvement in our standard of living.

The Burke-Hartke bill before this committee would accomplish these objectives. It would remove the incentive to overseas investment by eliminating the tax preference that now makes it more profitable for companies to go overseas than to increase domestic production. It would establish orderly marketing arrangements that would moderate the flow of imports into the U.S. It would strengthen the U.S. economy by assuring full employment. It would stop the export of jobs, and lead to the creation of new jobs, thereby leading to full employment and a stronger economy. It would let the rest of the world know that we mean business—that we are no longer willing to permit discrimination against U.S. products. And in the long run, it would move us closer to the ideals that we all are interested in achieving—a world without barriers, a world without discrimination, a world without exploitation.

Mr. BURKE [presiding]. Thank you, Mr. Jennings. This is an excellent statement and it spells out quite concisely the problems that the working men and women of America are facing as a result of our trade policies.

What do you think raises the objections to the Burke-Hartke bill most? Do you think it is the quota provisions in the bill or do you think it is the closing of that big fat tax loophole where they enjoy a $4 billion tax break every year?

Mr. JENNINGS. I think it is the closing of the loophole, number one. I think it is also a misunderstanding of the quota. I think it is the tax thing absolutely, Mr. Chairman.

Mr. BURKE. You have been around the country and I think your union has experienced a great deal of unemployment as a result of the trade policies.

The chamber of commerce was testifying here this morning and claiming that business was not being represented in the establishment of our trade policies.

Do you know where labor has been represented in the trade negotiations?

Mr. JENNINGS. I can't remember any place that we have played any kind of role at all, Mr. Chairman.

Mr. BURKE. Don't you think it would be desirable if our trade negotiators had some people on there that could represent the working men and women of America.

Mr. JENNINGS. I think it would be an interesting departure, Mr. Chairman, but a good one, yes, sir.

Mr. BURKE. Mr. Schneebeli?

Mr. SCHNEEBELI. Thank you.

Mr. Jennings, we enjoyed having you here.

I was somewhat worried that you would not mention the Burke-Hartke bill and I was glad that you did mention it on the last page.

Mr. JENNINGS. I would never make that kind of a blunder.

Mr. SCHNEEBELI. Thank you very much for coming.

Mr. BURKE. Mr. Archer?

Mr. ARCHER. I have no questions. Thank you, Mr. Chairman.

Mr. BURKE. Mr. Jennings, we had the TV and radio people here yesterday. Unfortunately there wasn't much coverage on the part of the press because apparently they were on the other side watching the case that is over there. The bread and butter issues are being discussed over here. But it was interesting to note the testimony of these people on what has happened in the radio and TV industry and I believe that 45 percent of their jobs have been lost as a result of the trade policies and tax breaks and tax incentives and everything that has happened in that industry.

They pointed out that Hollywood has now become practically a ghost town. They listed all the great studios that have gone out of business since 1965 and they listed factual information as you have done here today.

It is regrettable that this story is not getting out. They pointed out that they are making cowboy pictures over in Spain, and they wouldn't be surprised with these new trade relations with China if there were not some pictures started to be made in China.

In other words, well we will have Chinese cowboys and Chinese Indians.

Mr. SCHNEEBELI. Will the gentleman yield?

Mr. BURKE. Yes.

Mr. SCHNEEBELI. Perhaps the problem is not only runaway plants but runaway actors as well.

I think your problem goes beyond corporate entities, into the individual tax area.

Mr. BURKE. Of course, another tax break that individuals get here is that if they go overseas and work they are exempted from the first $20,000 of their income. This makes it nice for them.

I am trying to find out from our staff whether in the Chrysler Corp. investment in that plant they have in Japan they pay any social security taxes for the American citizens working over there to set up technology in the plant over there.

These are questions which will have to be answered. The U.S. Chamber of Commerce I think inadvertently brought this subject to our attention today. I hope the poor fellow doesn't get fired for doing it.

Nevertheless it is one of the areas we are going to look into because these people come back into the country, and they have had a lapse of maybe 5 or 10 years where they had high income but yet paid no part of the social security tax. In fact their employers paid no part of it which seems to be taking away from the social security trust fund and giving them the break of no taxes over there but, when they come back here, they will collect their social security because their earnings were so high and while they were here in the country they built up enough quarters to receive social security.

This is another area that we have to look into. I want to commend you Mr. Jennings for the fine job you are doing around the country in bringing to the attention of the American public the problems that are caused by this trade policy that we have which if carried on to its eventual conclusion will eventually destroy the industrial complex of America.

In other words, all of our firms will be lodged overseas and the United States can wind up as a service oriented country.

Mr. JENNINGS. We will be short order cooks or bank clerks, Mr. Chairman.

Mr. BURKE. That is right or maybe life insurance salesmen selling each other life insurance. Keep up your good work. We appreciate your appearance here today and the fine work you are doing.

Mr. JENNINGS. Thank you and you keep it up too, Mr. Chairman.

Mr. BURKE. I will be in there slugging.

Mr. JENNINGS. Thank you.

Mr. BURKE. Our next witness is William J. Kuhfuss, president of the American Farm Bureau Federation.

We welcome you here to the Ways and Means Committee, Mr. Kuhfuss.

We see that you are accompanied by an esteemed former colleague, former Congressman Clifford McIntire, a man for whom we always have great respect. We loved him and it doesn't hurt your case a bit to be accompanied by this fine man.

STATEMENT OF WILLIAM J. KUHFUSS, PRESIDENT, AMERICAN FARM BUREAU FEDERATION, ACCOMPANIED BY CLIFFORD G. McINTIRE, LEGISLATIVE DIRECTOR, AND DONALD E. HIRSCH, ASSISTANT LEGISLATIVE DIRECTOR

SUMMARY

American agriculture has an important stake in a high level of mutually advantageous world trade. Exports represent a significant part of the total market for our agricultural production. and have a favorable effect on the net incomes of not only the producers of the commodities exported but also the producers of other commodities.

The United States continues to be confronted by a serious balance-of-payments problem. Domestic inflation, created largely by excessive governmental expendi-

tures, is the root cause of our balance-of-payments problem and must be attacked vigorously on every economic front at every opportunity.

With a total trade balance that remains unfavorable and of critically high dimensions, the significance of the present favorable agricultural trade balance can hardly be overemphasized.

Title I—Authority for New Negotiations.—We are concerned about the proposed delegation of additional power to the Executive Branch of government; however, in view of the dynamically changing political and economic environment that may be expected to characterize the world situation in the mid-1970s, such an expansion of authority appears to be justifiable for a limited period.

A ninety-day period in which Congress could review, or even veto, a proposed trade agreement would give all negotiators some assurance that agreements negotiated would be implemented by the United States, but it also would reserve to the Congress the power to disapprove agreements that it may determine to be undesirable or unsound.

Title II—Relief from Disruption Caused by Fair Competition.—The provisions in Title II generally are in accordance with Farm Bureau policy.

Title III—Relief from Unfair Trade Practices.—We support, in principle, the proposals to authorize the President to respond to unjustifiable trade restrictions and discriminatory acts of foreign countries.

Title IV—International Trade Policy Management.—In general, we support the objective of Title IV but reserve the right to make further specific comments at a future date.

Title V—Trade Relations with Countries Not Enjoying Most-Favored-Nation Treatment.—In general, we support the provisions of this Title.

Title VI—Generalized System of Preferences.—We oppose the granting of generalized tariff preferences to products imported from developing countries.

Title VII—General Provisions.—We support the provisions of this Title in principle.

CONCLUSION

Farm Bureau supports H.R. 6767, the "Trade Reform Act of 1973", with amendments as follows:

1. Add a provision to Title I directing the President to conduct joint negotiations on agricultural and industrial products.
2. Add a provision to Title I explicitly banning U.S. participation in international commodity agreements which would allocate markets or provide for the establishment of minimum and maximum prices.
3. Make such editorial changes in Title II as may be necessary to delete overtones of protectionism.
4. Delete all of Title VI which deals with generalized tariff preferences for products imported from developing countries.

Mr. KUHFUSS. Thank you, Mr. Chairman.

Mr. McIntire is our legislative director. I have with me also our assistant legislative director, Mr. Don Hirsch.

We appreciate this opportunity to present the Farm Bureaus views with respect to H.R. 6767, the "Trade Reform Act of 1973." Farm Bureau is the largest general farm organization in the United States with a membership of 2,175,780 families in 49 States and Puerto Rico. It is a voluntary, nongovernmental organization and represents farmers who produce virtually every agricultural commodity produced in the entire country.

American agriculture has an important stake in a high level of mutually advantageous world trade. Exports represents a significant part of the total market for our agricultural production. The production from about one harvested acre in four is exported.

Exports have a favorable effect on the net incomes of not only the producers of the commodities exported but also the producers of other commodities.

Conversely, the net incomes of all agricultural producers would be adversely affected by a drop in exports and the consequent diversion of

a greater share of our productive capacity to the output of commodities destined for the domestic market.

Farmers and ranchers support two-way trade. In addition to our gains from a high level of export trade, we can gain from imports of items used in farm production which can help to reduce our production costs.

Urban families, as well as farm families, have a stake in continuation of agricultural exports at a high level. Higher production costs for farmers mean higher food and fiber costs for all consumers. Lower net incomes for farm families reduce their expenditures for industrial goods.

The United States continues to be confronted by a serious balance-of-payments problem, although there is some indication that the size of the deficit is declining.

Agricultural exports are continuing to set all-time highs. During the first three months of 1973, they reached $3.7 billion—73 percent above the same period a year earlier. The favorable U.S. agricultural trade balance during the nine month period ended March 31 rose to a record $3.7 billion in contrast to $1.5 billion during the comparable period a year ago. With a total trade balance that remains unfavorable and of critically high dimensions, the significance of the favorable agricultural trade balance can hardly be overemphasized.

Domestic inflation, created largely by excessive governmental expenditures, is the root cause of our balance-of-payments problem and must be attacked vigorously on every economic front at every opportunity.

During recent years there has been an alarming increase within the United States in support for protectionist proposals. Important negotiations will be conducted within the framework of GATT later this year. The effectiveness of U.S. negotiators likely will depend to a great extent on changes in trade policy that may occur prior to that time.

The U.S. Government needs to "put its own house in order" with respect to producer payments that actually are a disguised form of export subsidy. Progress is being made in that direction, and Farm Bureau has made recommendations to the Committee on Agriculture which, if adopted, would reduce this problem further.

This is a crucial period not only for the international trade of the United States but also for the continued growth of the economy.

Farm Bureau policy, established by the voting delegates of the member State Farm Bureaus at the annual meeting of the American Farm Bureau Federation in December, 1972, clearly states support for mutually advantageous international trade in farm products, reduction of barriers to trade, authority for the administration to participate in the forthcoming GATT negotiations, joint negotiations on trade problems in the agricultural and industrial sectors, and the opportunity for American agriculture to compete in world markets without the restrictions inherent in international commodity agreements (the full text of this policy is attached as Appendix A).

In this setting we should like now to direct our comments to the principal provisions of the bill under consideration, H.R. 6767, the "Trade Reform Act of 1973."

TITLE I, AUTHORITY FOR NEW NEGOTIATIONS

The President is provided authority for a period of five years to increase or decrease tariffs without limit in order to carry out trade agreements. This provision and others constitute a significant expansion of Executive authority over that provided by previous legislation.

We are concerned about the delegation of such power to Executive Branch of government; however, in view of the dynamically changing political and economic environment that may be expected to characterize the world situation in the mid-1970s, such an expansion of authority appears to be justifiable for a limited period.

Section 103 pertains to non-tariff barriers to trade. The variable import levies now imposed by the European Community are an example of non-tariff trade restrictions. Such barriers are of great concern to farm families since they often are used by other countries to limit or even exclude opportunities for U.S. farm products to compete in national or multinational markets.

Subsection 103(e) provides for a ninety-day waiting period during which the Congress will have an opportunity to study, make recommendations for changes in, or even veto, a proposed trade agreement providing for the reduction, harmonization, or elimination of barriers or other distortions of trade.

This would give all negotiators some assurance that agreements negotiated would be implemented by the United States, but it also would reserve to the Congress the power to disapprove agreements that it may determine to be undesirable or unsound.

We question, however, the language in subsection 103(d) that would permit the President to choose which of such agreements would be referred to the Congress in the above manner and which would not.

Further, we find nothing in title I—or elsewhere in the bill—that would direct the President to conduct joint negotiations on agricultural and industrial products. If comprehensive improvements in international trade conditions are to be achieved, the fact that the agricultural and industrial sectors are closely interrelated must be recognized at all levels of negotiation.

It also would be highly desirable to ban explicitly U.S. participation in any international commodity agreements which would allocate markets or provide for the establishment of minimum and maximum prices. Past attempts to operate such agreements have been notable failures, and the mistakes of the past must be avoided. Our members are on record as being strongly opposed to agreements of this kind.

TITLE II, RELIEF FROM DISRUPTION CAUSED BY FAIR COMPETITION

Farm Bureau policy in this subject area reads as follows:

Inflationary pressures have encouraged imports, and some industries are seeking protection from international competition. Adjustment assistance and escape clause remedies should be readily available to such industries, and worker assistance should be granted to employees of these industries when the Tariff Commission finds that imports are causing major injury. Criteria for determining injury should be established to make it easier to obtain import relief when injury or threat of injury to any U.S. industry is apparent. Prompt determination should be made on petitions for import relief.

The provisions in title II generally are in accordance with this policy. There are, however overtones of protectionism in this title that should be deleted. It appears that the fundamental purpose of import relief under this title is to permit a seriously injured domestic industry to become competitive again. This is a laudable objective except that it minimizes the possibility that some industries—or at least the less efficient firms—may find it desirable to redirect their productive resources to other kinds of business.

It is our belief that farmers and nonfarmers can benefit from trade that permits producers in each country to specialize in production of the commodities for which they have the greatest comparative advantage.

These are the commodities they can produce at lowest relative cost. National security and the need to avoid imposing undue hardship on domestic producers must be considered.

Sometimes it is necessary to provide an adjustment period for producers confronted by rapidly rising imports. Nevertheless, the advantages of freer trade can be obtained only if comparative advantage in production and delivery generally prevails.

TITLE III, RELIEF FROM UNFAIR TRADE PRACTICES

Chapter 1 of title III revises and expands the existing authority of the President under Section 252 of the Trade Expansion Act to respond to unjustifiable trade restrictions and discriminatory acts of foreign countries that burden, restrict, or discriminate against United States commerce.

We support these proposals in principle.

Of special concern to agriculture is the authority—subsection 301 (a) (3)—to take appropriate action against a foreign country that ". . . provides subsidies (or other incentives having the effect of subsidies) on its exports of one or more products to foreign markets which have the effect of substantially reducing sales of the competitive U.S. product or products to those other foreign markets. . . ." Such unjustifiable subsidies have hampered exports of certain U.S. agricultural commodities and could lead to much greater abuses if not attacked in a forthright manner.

TITLE IV, INTERNATIONAL TRADE POLICY MANAGEMENT

Subsection 401 (a) (1) (A) provides for the imposition of temporary import surcharges when necessary for balance-of-payments reasons. While we do not have a policy directly related to this subject, we believe it is desirable to spell out unmistakably the right of the President to take such action.

A temporary import surcharge should be imposed rarely, if at all, but the mere authorization of such a surcharge may strengthen the President's ability to negotiate with other countries with respect to balance-of-payments problems. The United States continues to have a serious balance-of-payments deficit, and a "full kit of economic tools" is needed.

In general, we support the objectives of title IV but reserve the right to make further specific comments at a future date.

TITLE V, TRADE RELATIONS WITH COUNTRIES NOT ENJOYING MOST-FAVORED-NATION TREATMENT

We support the provisions of this title, in general, in accordance with the following established Farm Bureau policy:

We favor the sale of American farm and industrial products in world markets whenever this will advance the best interest and security of the United States. Our national economy and agricultural well being are significantly dependent on exports.

We commend the Administration for its energetic efforts to expand foreign trade. The new trade agreement with the Union of Soviet Socialist Republics provides the framework for enlargement of U.S.-USSR trade and investment.

Congress should approve Most Favored Nation status for tariff treatment of goods from the USSR. Any trade agreements with Communist countries should not provide more favorable terms of trade than granted to other nations. Governmental barter agreements and special credit arrangements should not be allowed to supersede normal commercial trade.

TITLE VI, GENERALIZED SYSTEM OF PREFERENCES

We oppose the granting of generalized tariff preferences to products imported from developing countries.

Farm Bureau policy explicitly states support for American foreign aid programs for less fortunate nations that are ". . . based on well formulated, long range plans of recipient nations in order to insure proper utilization of aid funds." However, it also states that "we oppose granting special tariff concessions to developing countries."

We believe it is in the long-term best interests both of the developing countries and of the United States that this country treat commercial transactions with developing nations in the same manner as similar transactions with other countries. Preferential arrangements are discriminatory and economically unsound whether the nations involved are considered to be either developed or developing.

TITLE VII, GENERAL PROVISIONS

The provisions of this title appear to be necessary to facilitate implementation of the provisions under other titles in this bill. We support them in principle.

Farm Bureau supports H.R. 6767, the "Trade Reform Act of 1973", with amendments as follows:

1. Add a provision to title I directing the President to conduct joint negotiations on agricultural and industrial products.
2. Add a provision to Title I explicitly banning U.S. participation in international commodity agreements which would allocate markets or provide for the establishment of minimum and maximum prices.
3. Make such editorial changes in title II as may be necessary to delete overtones of protestionism.
4. Delete all of title VI which deals with generalized tariff preferences for products imported from developing countries.

Mr. BURKE. Thank you for your statement.

Without objection, we will include in the record appendix A, which is attached to your statement.

[Appendix A follows:]

APPENDIX A

FARM BUREAU POLICIES FOR 1973—INTERNATIONAL AFFAIRS

A dynamic, private competitive enterprise system is a major factor contributing to a more abundant life for all people.

International trade

American agriculture has an important stake in a high level of mutually advantageous world trade.

Exports represent a significant part of the total market for our agricultural production. The production from about one acre in four is exported. Imports of items used in farm production are also important to farmers as they may help to reduce farmers' costs. In the interest of our national economy as well as the American farmer, agricultural exports must be expanded.

The objective of conducting mutually advantageous international trade in farm products cannot be attained through programs, here or abroad, to assure producers a relatively high price for that portion of the crop sold domestically. Other devices to hide the total price incentive given to production also contribute to trade difficulties. We will work toward a market oriented economy so that commodities can be sold for export at prices not less than those which brought forth their production—including payments made through domestic programs of any national government.

We recommend that the federal government develop new or improved programs to provide more flexible credit terms for commercial exports of agricultural commodities. These are needed to enable U.S. exporters to compete on a more nearly equal basis with exporters in certain other nations.

We support programs designed to open foreign markets to American agricultural products. Special emphasis should be given to the reduction of nontariff barriers which often are more restrictive of trade than tariffs and which may negate the effect of negotiated tariff reductions.

The variable import levy fees now imposed by the European Economic Community are an example of nontariff trade restrictions. The U.S. government, working through the General Agreement on Tariffs and Trade (GATT), should insist on elimination of these restrictions.

Inflationary pressures have encouraged imports, and some industries are seeking protection from international competition. Adjustment assistance and escape clause remedies should be readily available to such industries, and worker assistance should be granted to employees of these industries when the Tariff Commission finds that imports are causing major injury. Criteria for determining injury should be established to make it easier to obtain import relief when injury or threat of injury to any U.S. industry is apparent. Prompt determinations should be made on petitions for import relief.

Legislated import quotas are unacceptable solutions to import problems. Their enactment depends on whether enough political influence can be generated to pass a law, and they invite retaliation. American agriculture, more than any other segment of our economy, would be seriously injured by legislation imposing import restrictions on individual industrial and agricultural products.

Agricultural import problems can be handled best through determinations of injury and remedies by the Tariff Commission rather than through special legislation.

Although we support the retention of Section 22 of the Agricultural Adjustment Act, we urge that domestic agricultural programs minimize the necessity for trade restrictions under this authority.

Imported agricultural commodities must meet sanitary and quality standards applied to domestic products. Enforcement of such regulations should be applied vigorously.

Regulations requiring proper labeling of imported agricultural products as to country of origin should be enforced.

We urge the U.S. Department of Agriculture to seek changes in Australian and Canadian import regulations to permit entry of livestock semen and breeding animals from our country.

We urge that increased opportunity be given Farm Bureau representatives to participate in government-to-government meetings involving international trade matters affecting agriculture.

Trade negotiations

The major trading nations of the world have agreed to begin comprehensive multilateral trade and monetary negotiations. These negotiations will be conducted within the framework of the General Agreement on Tariffs and Trade.

Authority to participate in these negotiations will be sought from the Congress by the Administration in 1973. This authority should be granted.

Negotiations on trade problems in the agricultural and industrial sectors should be conducted jointly, not separately. U.S. negotiators should work vigorously to reduce tariff and non-tariff barriers to trade.

International commodity agreements which allocate markets or provide minimum and maximum pricing provisions are not acceptable solutions to trade problems.

East-West trade

We favor the sale of American farm and industrial products in world markets whenever this will advance the best interest and security of the United States. Our national economy and agricultural well being are significantly dependent on exports.

We commend the Administration for its energetic efforts to expand foreign trade. The new trade agreement with the Union of Soviet Socialist Republics provides the framework for enlargement of U.S.-USSR trade and investment.

Congress should approve Most Favored Nation status for tariff treatment of goods from the USSR. Any trade agreements with communist countries should not provide more favorable terms of trade than granted to other nations. Governmental barter agreements and special credit arrangements should not be allowed to supersede normal commercial trade.

General agreement on tariffs and trade

GATT provides an important forum for the discussion of international trade problems and for establishing the "rules of the game."

GATT has no regulatory powers, and thus it can be no more effective than the good faith demonstrated by the contracting countries. Presently the trend is toward more preferential trade arrangements ignoring the basic foundation of GATT, that is, the "most-favored-nation (MFN) principle." Adherence to this principle means that when a trade concession is made by one nation to another, all other member nations must be granted the same concession. We call for a return to the adherence to the MFN principle as a step in making GATT a viable organization for handling trade problems. This is essential for U.S. farmers because one of our most important needs is equal access to world markets.

International commodity agreements

We oppose any attempt to set agricultural trade apart from industrial trade and to allocate international agricultural markets through the use of international commodity agreements.

International allocation of markets and determination of prices by government would (1) seriously restrict farmers' opportunity to expand markets and (2) substantially reduce net farm income.

Agriculture must be allowed to compete in world markets without impairment by international commodity agreements. We vigorously oppose efforts to inhibit market expansion and limit exports to a specified amount or a stipulated share based on some arbitrary base period politically determined in international negotiations. Market sharing, or international supply management, penalizes efficient producers and encourages uneconomic production. It bases future opportunity to expand markets on political negotiations rather than on our economic ability to compete. This opens the door to additional efforts to place agriculture under government control programs.

The international commodity agreement approach is as inappropriate for industrial trade as it is for agricultural trade.

Balance of payments

Recent U.S. balance of payments problems have pointed up the need for an international monetary system which would allow relative values of national currencies to adjust more readily.

The U.S. should continue to negotiate for reductions in trade barriers which restrict our exports to other countries.

U.S. military expenditures abroad should be reduced, and a greater share of the cost of military defense should be borne by other nations, especially in Europe.

We oppose restrictions on foreign tourism. Nations that now restrict tourist expenditures abroad should be encouraged to liberalize such restrictions.

Government export development funds

Export market development projects should be directed toward specific, practical objectives.

The American Farm Bureau Federation is prepared to participate and provide leadership in selected export development projects involving Foreign Agricultural Service funds.

Foreign aid

American foreign aid programs for less fortunate nations are worthwhile in promoting the peace and welfare of the entire world. Emergency food relief needs should have the highest priority in foreign aid programs.

Development assistance programs can be of major importance in improving the economies of underdeveloped nations. Such programs should be based on well-formulated, long range plans of recipient nations in order to insure proper utilization of aid funds.

It is in the long term best interest of developing countries to assist them to produce agricultural commodities which are not in world surplus.

Military aid is essential to the maintenance of world peace, and is a vital part of total U.S. foreign policy. Aid should be given to encourage private enterprise economic systems and should not be offered where it may advance socialism or communism.

Proposals to conduct American foreign aid programs through U.N. agencies should be rejected. We oppose granting special tariff concessions to developing countries.

We support continuation of the Food for Peace program. Needed supplies should be purchased in the domestic market, and production of these supplies should develop in response to market prices to the maximum extent possible.

Cargo preference

The Executive Order removing the 50–50 cargo preference requirement on trade with communist nations made it possible to negotiate the present trade agreement with the USSR and has resulted in greatly expanded exports of agricultural commodities.

We support efforts to maintain a strong U.S. merchant marine. However, in view of the extensive subsidies received by this industry, we do not believe it is proper for our government to require certain cargoes to be placed aboard American ships when their rates are not competitive with other available transportation. Part of the solution to this problem lies in modernization of domestic shipping facilities and port installations with greater emphasis on efficiency.

We commend the action of the dockworkers in loading Soviet vessels carrying grain purchased in this country. Practices adopted by labor unions which increase cargo handling costs restrict trade and should be corrected.

International understanding

The American Farm Bureau Federation should continue its endeavor to foster understanding among the farm people of the world as a means of furthering international good will.

Farm Bureau should seek opportunities for exchange of views and information with farm organizations throughout the world. Consideration should be given to developing programs designated to obtain a higher degree of cooperation with such organizations. The activities of the Associated Country Women of the World are a means of promoting understanding and good will throughout the world. The exchange of students and young farmers should be encouraged. Farm families traveling on tours sponsored by Farm Bureau or groups with a similar philosophy, or participating in exchange programs at home, also contribute to this objective.

United Nations

We seriously question the value of the United Nations as a forum for settling international disputes. It is being used for purposes other than those for which it was originally established.

Any nation which does not contribute its share of the support of the U.N. should not be permitted to vote.

World court

We support the effort to establish an impartial judicial forum for international legal disputes. However, since the present World Court includes judges from nations which neither accept the jurisdiction of the Court nor hold to basic concepts of justice, the United States should not delegate to such a court power to abridge the Constitutional rights of any U.S. citizen or to determine whether such court has jurisdiction over disputes involving the United States. We urge that the Connally Amendment remain intact.

Genocide convention

We oppose ratification by the U.S. Senate of the so-called international Genocide Convention. This treaty is poorly drawn and could conceivably be used to justify unjust and unreasonable intervention by foreign powers in the domestic affairs of this nation.

We urge State Farm Bureaus to inform member families of the implications of this proposed international law.

Panama Canal

The Panama Canal is vital to the security and commerce of the United States and important to world trade. The proper protection, maintenance, and operation of the Canal require complete ownership and control by the United States.

Mr. BURKE. Mr. Waggonner will inquire.

Mr. WAGGONNER. Mr. Kuhfuss, how many idle productive acres of land do we have in this country today?

Mr. KUHFUSS. Today it is hard to say with the situation we have after the flood.

Mr. WAGGONNER. Ignoring the flood situation.

Mr. KUHFUSS. The idle acres in farm programs are, as I understand it, somewhere in the neighborhood last year of 50–60 million acres, and there has been a release of some 30 million acres, I understand. So that there would be a balance of some 15–20 million acres.

Mr. WAGGONNER. We have a balance of some 15 to 20 million acres?

Mr. KUHFUSS. Or less. We would like to have the privilege of checking these figures. They are only from memory.

Mr. WAGGONNER. If they are in error, please correct them for the record.

Mr. KUHFUSS. Yes, sir.

[The corrected figures are thus:]

The diverted acres in 1972 farm programs were 61.5 million acres, and there has been a release of about 40 million acres for 1973 crop year, so that there would be a balance of some 20 million acres.

Mr. WAGGONNER. A good bit of our agricultural production is going overseas. You have testified to this. The Secretary of Agriculture, Mr. Butz, in a very fine appearance before this committee testified to it. Secretary Shultz alluded to it at the outset of these hearings. We have compensated to a point in our deficit in trade because of our agricultural exports.

How much more can we increase our agricultural exports without harming the economy of this country in an inflationary way and without producing additional shortages? Because I take the position that some food and fiber shortages exist now.

Mr. KUHFUSS. This is a real good question, and I say that the answer is not simple. You cannot take a segment of the economy and just give appraisals to that segment. For every billion dollars worth

of exports that we have it takes anywhere upwards of 100,000 jobs to service that sale. This is related to our labor jobs in this country. The sale and movement of products from agriculture out of this country to other countries, to other markets, has a bearing upon the amount that is left in this country to be consumed and to be used by our own people.

If your objective is to create a surplus situation by protecting and holding that in America, then we can have peasantry in agriculture and we are not for that because we are now living with an opportunity to export the production from roughly one acre in four.

Mr. WAGGONNER. That is not too good a statement, Mr. Kuhfuss, because I remember when farm people were on this Hill lobbying for legislation that produced reserve and stockpiles of food and fiber.

Mr. KUHFUSS. This may be true. The Farm Bureau has not done that. There are farm people who have.

Mr. WAGGONNER. Members of the American Farm Bureau have.

Mr. KUHFUSS. The circumstances today, your honor, are a bit different than they have ever been in the past, as far as our total trade picture. It hasn't been very long back, back in the Kennedy administration, when we surpassed the $500 billion gross national product in this country. This past year we were more than twice that.

What portion of that was inflation? Part of it was, not all of it was. We have had a tremendous change and the change has not only been in the United States. It has been round the world. If you look at the increases in the movement of agricultural products since the first of the year, which has gone up considerably, and I am sure I have those figures here, in the first 3 months of this year your agricultural exports are some $10.2 billion. In the last 3 of last year it was——

Mr. WAGGONNER. In the statement it was $3.7 billion.

Mr. KUHFUSS. I got my figures confused. The agricultural exports—this is taken from the information from the Department of Agriculture, during the first 3 months reached $3.7 billion, 73 percent above a year earlier. Even though we have had great increases of prices this reflects to us here in America that there is a strong buyer demand for products in other places in the world and the relationship of agriculture, during the first 3 months reached $3.7 billion, 73 percent that we can sell in other places in the world, so that we can have an expansion of jobs, we can have a dynamic world economy, and we are a part of the world economy whether we want to be or not.

Mr. WAGGONNER. Mr. Kuhfuss, I don't want you to get the idea that I am being totally unfriendly because I consider myself a supporter of farmers and farm legislation. I think I understand part of their problem, but there are some dangers that we have to get out here on the top of the table. Do you believe in Government subsidies of exported products such as, for example, the electronics from Japan to this country?

Mr. KUHFUSS. Well, we have to go from where we are and, as far as we are concerned, we would like to go to a freer trade market both in industry and in agriculture over the world. We would like to work in that direction.

Mr. WAGGONNER. We all want to do that but do you believe, Mr. Kuhfuss, in the Japanese Government subsidizing those exported products to this country?

Mr. KUHFUSS. Well, the movement of products in here—again, these are negotiable positions.

Mr. WAGGONNER. Do you believe in the principle of them doing it to get part of this market?

Mr. KUHFUSS. Our basic principle, my basic philosophy is that we should have a free trade philosophy, that we should have and, to answer your question specifically, we had ought to recognize that production is going to be produced in the world where we can produce the best product at the cheapest price in the long run. I don't know what the long run is but, basically, this is my philosophy and we can have arrangements as we do have with the Japanese people. They have built an economy. We have to go from where they are. The European Community has certain relationships related to outside trade and we have to go from where we are. We would like to go in this direction. We do not believe that the long time interests of our economy nor of the world economy can be based upon subsidized movement of the products.

Mr. WAGGONNER. Well, you probably ought to be up here and I ought to be down there because you can filibuster a question better than I can.

Mr. KUHFUSS. That is not my intent, sir. I'm sorry.

Mr. WAGGONNER. If we are going to pursue it on that basis there is no reason for us to go on because you are skirting the question. I am going to ask you a question directly and I want you to justify it for me. There are Members of this Congress who say that we with American agriculture, by providing subsidies in the form of payments or in other ways to farmers, are providing an export subsidy which produces what appears a more favorable balance of trade than it really is, and it is in fact parallel to Government subsidy by the Japanese, for example, say in their electronics industry and some others. Do you consider this a subsidy?

Mr. KUHFUSS. Any input of Federal funds that helps bring forth production would be considered a subsidy in my opinion.

Mr. WAGGONNER. Then you admit——

Mr. KUHFUSS. Yes, sir.

Mr. WAGGONNER. You are admitting to us here today that this Government is subsiding agricultural exports?

Mr. KUHFUSS. Yes, sir, and if you will refer to our farm policy statement, this is clearly pointed out in our farm policy statement which has been presented to both the Senate Agriculture Committee and the House Agriculture Committee.

Mr. WAGGONNER. Do you advocate removing those subsidies?

Mr. KUHFUSS. Yes, going in that direction.

Mr. WAGGONNER. Thank you.

Mr. BURKE. Mr. Schneebeli will inquire.

Mr. SCHNEEBELI. Mr. Kuhfuss, I agree with what my colleague, Mr. Burke, has said about Cliff McIntire. You have shown very good judgment in having him associated with you. I am glad to see that the farmer no longer is the stepchild in the economic scene. Who would have thought back in 1962, when we passed the Trade Expansion Act, that agriculture would loom so large in the trade picture of 1973?

What position did the Farm Bureau take in 1962 with regard to trade legislation? Do you recall? You were here in 1962, Cliff. Do you remember?

Mr. MCINTIRE. Mr. Congressman, yes, I was a Member of Congress in 1962. My recollection, and I think I am reasonably correct, is that

the Farm Bureau position at that time was for the extension of the Reciprocal Agreements Act which had its basic direction in freer international trade.

Mr. SCHNEEBELI. The same general thrust as we have now?

Mr. McINTIRE. Yes.

Mr. SCHNEEBELI. I was just trying to refresh my memory. I think you have been consistent over this period of time in your philosophy.

Mr. McINTIRE. I came to the Congress in 1951. My recollection, Mr. Congressman, is that the Farm Bureau's position probably before that time, and certainly during the period that I was here, was very much in support of the concept of reciprocal trade and in the direction of freer international trade.

Mr. SCHNEEBELI. I agree with you. Thank you very much for refreshing my thinking.

Mr. Kuhfuss, we have heard much criticism of the U.S.S.R. grain sale with respect to price, and allegations that some sort of deal was made between the Government and the operators. Would you comment on this?

Mr. KUHFUSS. I would be happy to comment on it. First of all, the sale to any country on a cash basis on the same terms we would sell to anybody else we favor.

Mr. SCHNEEBELI. That would depend on the sale terms.

Mr. KUHFUSS. That is right, that there not be preferential treatment given, and there was not as I know the circumstances.

Mr. SCHNEEBELI. No price concessions?

Mr. KUHFUSS. The deal that the Russians made was made on the same basis that anyone else could have made it. I think they were shrewd negotiators. I think they contracted for a lot more product than we realized they were contracting for and got the commitments ahead of the time it had the impact upon the market and it was a good deal as far as they are concerned. We are in favor of an expanded trade policy with the Communists done on the basis where it is to the interests of the United States and in the interests of Russia done on the same basis as we do it with other people.

Mr. SCHNEEBELI. Now, would you comment as to whether there was some sort of deal between the Government and the grain operators?

Mr. KUHFUSS. I could only express an opinion, not being in a position to know, and my opinion is that I have complete confidence in the people who negotiated the trade who were Clarence Palmby and Secretary Butz. I know of no two people in whom I have a greater confidence in their integrity than those two people.

Mr. SCHNEEBELI. Just another question: You say you are opposed to commodity agreements. But what would you propose as an alternative?

Mr. KUHFUSS. The direct contracting and negotiation between nations. Commodity agreements are agreements multilaterally as we understand it.

Mr. SCHNEEBELI. Do you want bilateral arrangements?

Mr. KUHFUSS. It might be multilateral but as far as we are concerned, the contracting could be between several nations but the contracting should not be a decision that is made on a political basis to try to regulate the production nor the distribution of that market.

Mr. SCHNEEBELI. But we still have to conform to GATT.

Mr. KUHFUSS. Even though the GATT negotiations, as I understand, have not been approved by the United States Congress we are

honorable in our negotiations and would have to continue to be and live within the agreements we make.

Mr. SCHNEEBELI. I think you would agree that we have to have some forum and until something better comes along we should support the GATT.

Mr. MCINTIRE. May I comment to this. I think perhaps we want to make certain in this colloquy that we are distinguishing between trade negotiations and international commodity agreements. There is a separate vehicle called by the latter term that is a separate arrangement from that in which we more generally refer to as the GATT negotiations. There is as you will recall the Coffee Agreement which has been acted upon by the Congress in a separate legislative action approving a specific commodity agreement. This is the area to which the statement speaks, rather than negotiating trade under GATT.

Mr. BURKE. Probably I shouldn't bring it up, but we also have sugar agreements.

Mr. MCINTIRE. Yes, we do indeed.

Mr. SCHNEEBELI. Thank you very much.

Mr. BURKE. Thank you very much, Mr. Kuhfuss. I have made an excellent statement in behalf of your people. It is nice to know that some group in this country is exporting some goods overseas. It helps our imbalance of payments and imbalance of trade. I hope the industrial complex will start doing the same. To my former colleague Cliff McIntire, we are always happy to see you here.

Mr. MCINTIRE. Thank you very kindly, Mr. Chairman.

Mr. BURKE. Mr. McIntire is highly respected on both sides of the aisle.

Mr. KUHFUSS. We think we are very fortunate to have Mr. McIntire.

Mr. BURKE. You are very fortunate to have him, I believe.

Thank you very much.

Mr. KUHFUSS. Thank you.

Mr. BURKE. Our next group is a panel: William Bywater, George Collins, Ben Sharman, and Anthony Bellissimo.

We welcome your entire panel here and, if you will identify the panel, you may proceed with your testimony.

PANEL CONSISTING OF GEORGE COLLINS, ASSISTANT TO INTERNATIONAL PRESIDENT, INTERNATIONAL UNION OF ELECTRICAL, RADIO & MACHINE WORKERS; ANTHONY P. BELLISSIMO, ASSISTANT TO INTERNATIONAL PRESIDENT, INTERNATIONAL BROTHERHOOD OF ELECTRICAL WORKERS; AND GERARD BORSTEL, PUBLICITY AND PUBLICATIONS DEPARTMENT, IUE

SUMMARY

1. *Introduction*—Statement represents the viewpoint of more than 2 million union members, many of whom have been harmed by the elimination of jobs caused by imports.

2. *Technology Export*—U.S. multinational companies in the electrical-electronics industry, whose R&D is heavily supported by the taxpayer, have helped create their own foreign competition and have destroyed numerous American jobs through the sale and licensing out of technology.

3. *Foreign Investment*—Since 1960, investment by these U.S. corporations has grown rapidly and at a faster pace than their total expenditures on new plant and equipment.

4. *Plant Runaways*—The export of technology, foreign investment, low wages, tax and other incentives available abroad, and U.S. tariff loopholes have combined to cause wholesale plant shutdowns and job elimination in this American industry. The firms which have participated are a "who's who" in U.S. electrical-electronics manufacturing.

5. *Job Losses*—There are nearly 109,000 fewer jobs in 3 principal divisions of the industry than in 1966. Dollar devaluation in 1971 did not help; it merely shifted some of the imports from Japan to "dollar countries" like Taiwan and Mexico. Some examples of plant shutdowns.

6. *Inadequacy of Existing Safeguards*—Our unions have attempted in vain to use the anti-dumping, countervailing duty, "escape clause" and adjustment assistance procedures. They are wholly inadequate.

7. *Recommendations*—We urge the committee to act favorably on H.R. 62, the "Burke-Hartke Bill," as the one comprehensive solution that will restore balance to U.S. international trade.

Mr. COLLINS. Thank you, Mr. Burke.

I am accompanied this morning by some members of our panel. Due to rescheduling of the appearances, one or two of the gentlemen are not able to make the schedule.

Mr. Anthony P. Bellissimo is my colleague, my counterpart, actually, the assistant to the international president, International Brotherhood of Electrical Workers. We are accompanied by Gerard Borstel of the publicity and publications department of the IUE, who has assisted our unions in presenting the impact of these matters in the publications of our union.

Mr. Chairman, the documents that we have submitted in advance to the Ways and Means Committee are intended to provide broad and general support to the positions taken earlier by the AFL-CIO and this morning by the spokesman for the industrial union department Mr. Paul Jennings, who happens to be as well the president of my union, the IUE.

I am sure that the members of the committee will hear at some point in the proceedings a response from the industry viewpoint. We have felt it crucial to the well-being of our members in the industry to make a strong presentation of the way international trade affects them directly.

Our general statement is summarized on its second page. We discuss the exports of the technology of this industry, its foreign investment patterns, the patterns of dispersal of the manufacturing forces in this industry in the form of plant exports, plant runaways.

We comment on the losses of jobs and the inadequacy of existing safeguards. We make recommendations in general support of H.R. 62, the Burke-Hartke bill.

We have the honor today to address the Committee on Ways and Means of the House of Representatives and the honor to present the point of view of our three unions which represent the great majority of the workers of the electrical-electronic machinery manufacturing industries of our land.

We hope to demonstrate to you that a process is at work that threatens the survival of this important industry and that only your action can save it from destruction. We also hope to demonstrate that this industry is participating in its own destruction.

We represent the viewpoint of the more than 2 million members of the IAM, IBEW, and IUE, a substantial number of whom have al-

ready become the victims of plant shutdowns caused by imports. Many of these workers spent their adult careers employed by this industry.

These workers we feel are of far greater importance than the technology they have helped nurture and develop. Their well-being should be of greater concern to this committee than the ability of their employers to make handsome profits wherever they choose to put up a plant.

Our Nation's foremost position in the world of advanced technology has been developed and maintained by the remarkable discoveries of the electrical-electronic laboratories and the miracles of rationalized automated production of its parts, components and end-products.

Numerous applications of this technology now serve other industries. A list of the tasks that electrical-electronic devices and systems perform in the fields of communications, transport, manufacturing, aerospace, government, banking, retailing, education and other industries would fill many pages.

The development of this Nation's electronic capability came about as a result of the investment of billions of dollars of national treasure to fund research and development. In a large sense the fundamental ownership of what the R. & D. has produced resides in the eminent domain of the American people.

When industry's managers seek to disperse this technology beyond the control of the Congress and to transfer its growth across our borders, Congress must act to impose safeguards. For this technology and its many and varied applications may well be the greatest potential producer of employment opportunities in our country's history.

This most sophisticated technology, developed with federal assistance and public funds, has been exported wholesale for profit by American industry. American firms have licensed major foreign producers of radio and television set manufacture in picture tube—including color TV tubes—technology, semi-conductor technology, circuitry, etc. Japanese manufacturers alone have been licensed by U.S. companies to produce items as diverse as electric blankets, fluorescent lamps, complex integrated circuitry including LSI—large scale integration—aeronautical instruments, transistorized tape recorders and other audio devices, photoconductive elements, desk calculator systems, microwave systems, switchgear devices and controls.

Other witnesses, I am sure, will testify in more detail of the magnitude of the export of technology through licensing and patent sharing agreements in other industry groupings. I hope to concentrate the time available to me to demonstrate that the electrical-electronic companies of the United States have been responsible for putting their foreign competitors in business, at the cost of our jobs and at the loss of our country's economic advantage.

A distinguishing feature of American electrical-electronics are communications industries is their sizable annual expenditure on research and development. Since 1960, such expenditures have exceeded $2.5 billion annually, representing more than 20 percent of the Nation's annual R. & D. outlay by all industries. During 1969 and 1970 electrorelated industries devoted $4.3 billion a year to R. & D. The $4.3 billion outlay during 1970 equaled 24 percent of the total for all U.S. industries.

Most of these funds come from the taxpayer. During 1960–70 a total of $36.7 billion was spent on electro-related R. & D., of which $21.14 billion—57 point 5 percent—was contributed by the Federal Government. The 1970 electro-industry R. & D. outlay of $4.3 billion included a Federal contribution of $2.3 billion, 29 percent of the Government's entire expenditure for R. & D. support. Only the aircraft and missile industry received a greater direct contribution from the public purse, $4.1 billion—52 percent of the industry's total during 1970. These two industries, electro and aircraft-missiles, received 81 percent of the total federal assistance for R. & D. budget, and were the only industries to receive more than half of their R. & D. expenditures from public funds.

The Federal Government—particularly the Defense Department and the Space Agency (NASA)—has not only provided most of the funds and inspiration for the electronic industry's R. & D., it has also functioned as this major market. Sales of industry products to agencies of the U.S. Government since 1967 have ranged between $11.5 billion and $12.5 billion annually, almost half of the industry's total sales of $24.6 billion.

Research and development is becoming increasingly significant worldwide, particularly with regard to sophisticated technologies such as electronic data processing and integrated circuitry. R. & D. breakthroughs, as well as improvements and advances in the state-of-the-art resulting from R. & D., are increasingly—and more quickly—shared internationally through licensing agreements and foreign joint ventures as well as through product shifts and plant relocations.

American firms have exported technology, developed largely with government funds, on a massive scale for their private profit and now we are concerned about whether we can maintain our technological lead in order to stimulate our economy and provide badly needed jobs.

American firms of this important job-producing group of industries through their licensing agreements have aided and encouraged foreign competitors so that the latter have been able to actually outcompete them in the U.S. market on a variety of commercial and consumer products.

The International Economic Report of the President transmitted to the Congress in March 1973 shows that U.S. income from these sources—royalty and license fee transfer payments—has consistently and widely outstripped the payment by U.S. companies to foreign firms. From 1960 to 1971, receipts totaled almost $20 billion, while U.S. payments to foreign companies aggregated less than $2 billion. The report clearly shows a surplus from our technology sales. For 1972, net royalty and fee earnings rang the bells of our national cash register at $2.8 billion.

In this book, "World Without Borders," Lester Brown of the Overseas Development Council refers to the technological balance of payments, "the foreign exchange spent versus that earned in importing and exporting technology. Japan, Brown points out, "has the largest technological balance of payments deficit of any country . . . the United States has the largest . . . surplus." U.S. exports of technology account for about one-half of the world total.

Referring to the United States Mr. Brown writes:

Receipts from the sales of technology abroad increased from $362 million in 1956 to an estimated $2.2 billion in 1970 . . . U.S. exports of technology now exceed the total exports of countries such as Colombia, Nigeria or the United Arab Republic. The rapid growth of international technological transactions is closely associated with the phenomenal growth in the size and number of multinational corporations since 1950.

Research and development doesn't put many people to work unless the products which come out of it are used for that purpose where jobs are needed. That is not happening in the electrical-electronic and communications industries.

From 1960 to 1970, U.S.-based companies in those industries made 516 patent-licensing agreements in Japan. This was the very period in which Japanese consumer electronic products began moving into the U.S. market in great numbers and in which this nation's trade deficit with Japan first materialized.

The old pattern was for a product to be developed and produced in the United States, then for low-wage production to start in other countries, and gradually for most or all production to move abroad. By eliminating the U.S. production stage, the export of technology is speeding up that process.

That is precisely what happened in the case of low-priced electronic calculators. According to an article in the September 26, 1972, Washington Star, the basic technology for this product was developed by the North American Rockwell Microelectronics Co., a subsidiary of one of the Nation's major Government aerospace contractors. The technology was there for the using, to put Americans to work producing a product for the U.S. market and for export. NRMEC was unable or unwilling to go into production itself and could find no U.S. firm interested in acquiring the rights to make the product domestically. But Japanese firms and U.S. importers were interested. And now the technology is exported and the calculators are assembled in Japan, Mexico and Hong Kong.

"Thus," says the Washington Star article, "while a vigorous imaginative effort to bring space-age technology into the American home can keep a corporation financially healthy and can help the nation's balance of payments, it does not necessarily create jobs for American workers."

From the earliest period of the industry's development, the companies of the electro industry have been in the forefront of the firms that have licensed off our government-financed, taxpayer-supported technology to all corners of the globe. They also have been among the leaders in the surge of overseas private investment by American firms.

Electronics firms have been eager to merge with and acquire compatible facilities all over the globe. They invest heavily in new plants in other countries, and with increasing frequency transfer production from American to foreign plants. Foreign-based electro industry companies have also expanded their operations outside the borders of their home countries. But in terms of frequency of acquisition and merger, the scale and amount of capital involved, the restless search for new product lines, the relocation of production facilities and worker displacement, American multinationals are easily the biggest and most active force in this industry.

From 1960 to 1970, expenditures on new plant and equipment by foreign manufacturing affiliates of U.S. electrical-electronic firms amounted to nearly $3 billion, growing steadily from $105 million in 1960 to $400 million in 1969 and to $485 million in 1970. In 3 years, 1969–70, such investment exceeded $1.1 billion.

Investment in foreign plant and equipment for this U.S. industry grew from approximately 11 percent of total capital investment in 1960 to 21.5 percent in 1970.

The electronics industry's performance has earned for it a poor image in the eyes of the workers in the industry. Many workers have suffered from the erratic patterns of seasonal layoffs and model change shutdowns. Whole plants have been closed down temporarily because of the failure to balance production of consumer market products with government contracts schedules.

The industry's export of capital and licensing of technology to foreign producers have been felt by workers, many of whom put in 20 years to 40 years of service only to see their plants closed down and their jobs eliminated. As the flood of imported parts, components and end-products surged into the domestic market, electrical-electronic workers, members of our unions, became the first victims of these short-sighted practices. The rapid transfer of production to low wage areas by electronic companies has resulted in thousands of lost jobs.

The incentives for moving production to Taiwan, South Korea, Singapore, Hong Kong, Mexico and the Caribbean, as a way of meeting increasingly sharp Japanese competition, were not only the pitifully low wages and substandard working conditions in such countries, but tax concessions and other relocation inducements granted to U.S.-based corporation. In addition, plant removals and transfers of production are encouraged by Items 807.00 and 806.30 of the U.S. Tariff Schedule. These loopholes permit U.S. firms to import products and components assembled in foreign plants for export to the United States and pay duty only on value added abroad, rather than on the full import value of such products and components.

The importation of electronic products produced under these loopholes is currently a $1 billion business. For 1972, the U.S. Customs Bureau reports that over $400 million in U.S.-made parts were transferred abroad for processing or assembly prior to duty-free reimport into the United States. Import duty, under the minimal rates applicable, was assessed on some $600 million of value-added, mainly low wage assembly labor performed by exploited foreign workers in Asia, Mexico and the Caribbean.

Customs records published by the Census Bureau—Report 1A-245A—show that the electro industry and its divisions were major utilizers of these job-stealing tariff loopholes during 1972. The Industry's reliance on 806/807 grew 25 percent over 1971 when $750 million was involved—$350 million U.S.-made, $400 million value-added foreign processing.

U.S.-based multinational electronic companies are the biggest users of the loophole. Electronic products amounted to one third of the $3.1 billion of the total value imports under 806/807 during 1972, just last year.

Countries as widely separated as Mexico, Taiwan, Hong Kong, Singapore, South Korea, the Philippines, Malaysia, Jamaica and others have been used as bases to penetrate the U.S. market under the tariff loopholes. The practice of these countries has been to grant tax concessions, import duty exemptions on equipment and materials, and, in some cases, immunity from local laws and regulations. The greatest attraction perhaps is generally an unlimited supply of labor at hourly rates as low as 10 to 50 cents an hour.

The trade paper Electronic News carries advertisements promoting "low cost Caribbean assembly in Trinidad—Tobago" where "the English speaking workers average 40 cents an hour."

The Advertisements in the Wall Street Journal invite inquiries from U.S. firms interested in opening assembly plants along the American border in Mexico. The lure that is used is to get away from the costs imposed domestically by the Occupational Safety and Health Act, enacted by Congress in 1970. When President Nixon signed that bill into law, he hailed it as an important advance for American workers. But thanks to the 806:30 and 807:00 tariff loopholes, hundreds of our firms are negating that advance with their U.S.-export-only factories in foreign countries.

All over the Far East, countries have set up special manufacturing zones, to which American firms are induced to come to produce goods for export to the United States. The companies in our industry have responded in great numbers.

Taiwan has three duty-free "export processing zones" with a capacity of 100,000 workers producing annual exports totaling $400 million. The number of plants anticipated is over 400. The first of these zones, at Kaohsiung Harbor, is operating at full capacity with 161 plants employing 40,000 people. Incentives include technical and financial assistance, a 10-year tax exemption and wages well below the Taiwanese average. In 1970, these zones produced 1.25 million TV sets, 3.64 million transistor radios, and over 15,000 air conditioners.

Taiwan used to be a trade deficit country, but in the first five months of 1972 it had a trade surplus to all points of $35 million. Its trade surplus with the U.S. for that period was $169 million, which means that U.S. multinational corporations singlehandedly turned the picture around.

South Korea offers probably the most liberal and attractive investments incentives and safeguards in Asia. Among them are: tax exemption for five years and 50 percent tax reduction for the next three years; exemption from customs duties and commodity taxes on goods imported for investment purposes; exemption from personal income tax for foreign personnel—these same people are also exempted from U.S. income taxes; unlimited remittance of profits; protections against exportation; reinvestment of profits, and sole ownership.

An ad run by the Public Relation Association of Korea in the December 27, 1972, Washington Post reports that one of the most promising new inducements is the Masan Free Export Zone, legislated in 1970 to expedite the establishment of foreign-invested export industries ". . . Korean workers employed at plants in the Free Zone will be considered in the same category as public utility workers, meaning

that labor disputes will be compulsorily arbitrated by the government, avoiding the possibility of strikes or slowdowns."

A partial list of American firms in Korea; Fairchild Semi-conductor, Signetics Corp., General Motors, Keystone Valve Komy Corp., Motorola, Control Data, Illinois Condensor, American Microsystems, Midtex, Royalpac, Applied Magnetics Corp., Electro-Voice, Ford Motor Co., Borg Warner, Dana Corp.

A partial list of American firms in Taiwan runs from A to Z; Admiral, Ampex, Arvin Ltd., Bendix, Control Data, Cornell Dubilier, General Instrument, IBM, 3M, Motorola, Philco-Ford, RCA, Singer, Sprague Electric, Texas Instruments, TRW, Wang Laboratories, Corning Glass, Zenith.

A partial list of American firms in Mexico: Bendix, Zenith, Control Data, P.R. Mallory, Sprague Electric, Union Carbide, Singer-General Precision, Curtis Mathes, Sarkes Tarzian, Transitron, Standard Kollsman, Advance Ross Electronics, RCA, Ensign Coil, Airco Spear, Lear Jet Stereo, General Electronics, Motorola, Erie Technological, Raytheon, Fairchild Controls, Warwick Electroncis, Solitron Devices, Litton Industries, Burroughs.

Incidentally, Mr. Chairman, these are all companies that one or the other of our unions represent at some point and we used to represent a lot more workers of these companies.

Equally extensive lists could be compiled for many other countries.

From 1966 to 1972, employment in the three main categories of the electrical-electronics industry declined by nearly 109,000 jobs. This decline is not a temporary process; the situation is not improving. In fact, as the following table shows, the bulk of these job losses has occurred since 1968.

[Table referred to follows:]

	Annual averages			Change	
	1966	1968	1972	1966 to 1972	1968 to 1972
Electrocomponents and accessories	388,600	381,400	340,700	−47,900	−40,700
Radio and TV receiving sets	161,700	153,500	139,200	−22,500	−14,300
Communications equipment	467,700	522,500	429,500	−38,200	−93,000
Total	1,018,000	1,057,400	909,400	−108,600	−148,000

Mr. COLLINS. Job losses have hit production employee classifications at a sharper rate as the growth side of the industry has been transferred offshore. A compilation of plant closings and departmental shutdowns embraces virtually all companies in the industry.

Strongly entrenched firms, as well as more marginal operators, have suspended domestic production.

Domestic production of home radios has been almost totally eliminated; automobile radio production is on the verge of complete transfer to Asia and now to Brazil.

The importation of television sets, first from Japan, and now also from Taiwan and Mexico as well, has been a direct cause of the shutdown of numerous plants across the country. American television manufacturers have subcontracted their production to Japanese companies. TV sets and other consumer electronic goods made in Japan

for the American market are retailed under the familiar U.S. brand names and labels. Parts and components produced in Japan under license from U.S. companies are heavily imported both as parts and as elements of assembled products. Japanese-brand TV sets and systems have "competed" with the Japanese-made U.S. brands for a significant share of the U.S. market.

Television sets and other consumer electronic products from Taiwan and Mexico have become an even stronger force in the recent past. Because the Republic of China (Taiwan) pegs its currency to the U.S. dollar, the December 1971 Smithsonian currency revaluations, and others, of course, did not create thousands of U.S. jobs; instead it generated a massive surge of TV set imports from Taiwan. American multinational companies are dominant in the electronics industry of Taiwan.

Upward valuations of the Japanese yen and the successive dollar devaluations have created a suction effect on U.S. electronic production, with our members the losers and the American-owned electro companies in Taiwan the winners.

Taiwan is now the largest exporter of TV sets to the United States, having passed Japan during 1972. Mexico, another "dollar country" is coming on strong.

The General Instrument Co., which once employed thousands of our members in the United States and Canada, is now the largest private sector employer in Taiwan.

Major U.S. employers have closed down modern automated electronic plants to transfer production to Taiwan and elsewhere. In 1970, RCA shut down its Memphis, Tenn., color TV plant which employed 4,000 people. When it opened in 1966, the Memphis RCA plant was the most modern color TV production plant in the United States.

The Westinghouse Electric Co., a powerful electronic manufacturing company, dropped out of consumer electronic production in the United States during 1969–70 and has curtailed production in its Canadian plants. More than 2,000 Westinghouse workers lost their jobs when the company closed its modern plant in Edison, N.J., a town named in honor of the American who founded the world's electrical technology.

While expanding its overseas plants in Taiwan and Brazil, Philco-Ford is phasing out its flagship plant in Philadelphia.

The Emerson TV and phonograph plants in Jersey City were closed down in 1970 and U.S. production of the respected Emerson and DuMont labels ceased. Radio production had ended there long ago. Admiral Corp. was engaged to produce those labels in its Taiwan plant.

Other powerful electrical manufacturers; including General Electric, Sylvania, Admiral, Whirlpool and Zenith, have closed large U.S. plants while expanding offshore operations. Parts and components plants producing the whole range of consumer, industrial and military electronics have ceased stateside production in favor of low wage areas around the globe.

When expanding, these firms show a marked preference for foreign locations over American communities. Texas Instruments, a leading

manufacturer in the semiconductor field, has announced that it will open four new solid state products plants this year, three of which will be offshore—in Hiji, Japan; Kuala Lumpur, Malaysia, and Campinas, Brazil.

INADEQUACY OF EXISTING SAFEGUARDS

The workers of our industries, members of the Ways and Means Committee, have suffered from the inadequacy of existing safeguards in U.S. laws and regulations. While foreign imports have captured greater and greater shares of the market and thousands of our members have been thrown into unemployment relief that should have been available has been nonexistent.

We have appealed in vain to government agencies for remedial action. Existing regulations under anti-dumping, contervailing duty and "escape clause" provisions have been essentially useless and unavailable to us.

Adjustment assistance, as provided under the Trade Act of 1962, has proved to be nothing more than an illusion. Petitions before the Tariff Commission for the unemployment compensation, retraining and relocation benefits intended by Congress have been struck down by an unrealistic eligibility formula. Only an infinitesimal number of the thousands of victims of imports have qualified for the inferior benefits provided, and then only after frustrating delays.

None of these measures anticipated the phenomenal development of the multinational companies, their export overseas of our jobs and technology, and the vast amount of capital devoted to foreign investment.

It is for these reasons, Mr. Chairman, that. as we indicated before, we support the general thrust of the Burke-Hartke bill.

RECOMMENDATIONS

H.R. 62, the Burke-Hartke Bill, remains the comprehensive solution to save our jobs and industries and to restore balance to our international trade.

Its provisions will remove the special incentives granted to runaway corporations by taxing foreign income when it is earned, rather than when the money is returned to the United States. It will repeal the foreign tax credits allowed overseas subsidiaries which now discriminate unfairly against U.S. producers. It will regulate the licensing practices that have brought about the export of technology and jobs, and will oversee the outflow of dollars to prevent further damage to the U.S. economy.

H.R. 62 will furnish our trading partners a guarantee of an equitable share of the U.S. market for their exports, while assuring that the jobs of American workers will be preserved and employment opportunities will grow. At the same time it will accord to the President ample discretion to increase supplies of commodities when they are in short supply.

The bill will, we hope, repeal the 806:30 and 807 tariff loopholes that have encouraged U.S. corporations to assume the role of labor exploiter in the developing countries.

It will streamline this nation's trade administration procedures under a Foreign Trade and Investment Commission that will com-

bine the numerous regulatory and other functions now senselessly dispersed among various departments and agencies. Quota provisions as well as remedial action to prevent dumping and illegal foreign subsidies of exports will be administered by this commission. The commission will be charged with the responsibility to act on complaints within a compressed time frame. Membership on the commission will assure a voice to both workers and consumers.

Since the Burke-Hartke Bill was first introduced in Congress, all three of our unions have taken note of the special situation and problems involved in the close economic relationship between the United States and Canada. In part because of this relationship, most of the evils of multinational runaways and flooding of the marketplace with imported goods that we have described here with reference to the United States have also hit Canada. This is particularly true of the electronics industry, in which the major U.S. corporations also employ large numbers of workers in Canada. For these reasons and because of the close historic ties that exist between our two nations, we recommend that H.R. 62 be amended to provide for the negotiation of an economic compact between the United States and Canada aimed at preventing the international trade abuses that have damaged both nations. Such a compact should preserve and encourage trade with due safeguards against either nation becoming a way station for exports from low wage countries to other nations. We recommend that such a compact supercede the quota provisions of the Act to the end that a joint "common market" be published that is of mutual benefit to both our democracies.

With that one additional proposal, the IUE, IAM and IBEW urge that this committee recommend H.R. 62 to the full House of Representatives. By such action, the members of this committee will be serving the best interests of the people you represent, in your districts and throughout the Nation.

Thank you, Mr. Chairman.

Is there any further testimony?

Mr. COLLINS. No, we are quite prepared to answer questions.

Mr. BURKE. We have two statements here. One is a summary. Without objection, it will be included in the record in its entirety.

[The summary statement follows:]

STATEMENT OF GEORGE COLLINS, ASSISTANT TO THE PRESIDENT, INTERNATIONAL UNION OF ELECTRICAL, RADIO & MACHINE WORKERS

I am George Collins, assistant to the president of the International Union of Electrical, Radio and Machine Workers. I am appearing on behalf of the International Brotherhood of Electrical Workers and the International Association of Machinists and Aerospace Workers, as well as my own union, the IUE. All three unions are affiliated with the AFL–CIO and we subscribe to the testimony given by the Federation and by its Industrial Union Department.

We have submitted our own written statement, and I would request, Mr. Chairman, that it be put into the record and that it receive the consideration and attention of this committee.

I would like to summarize and supplement that statement..

Our three unions have a combined membership of over 2 million workers, a large portion of whom are employed in the U.S. electrical-electronics manufacturing industries. Our members are extremely concerned about the nation's international trade crisis. They are concerned to the point of anger.

Our industry exhibits all of the worst features of the trade crisis. Many of our employers are multinational corporations whose growth has been aided by the Federal Government, through procurement contracts, and by the American tax-

payer and consumer, through providing the funds for such contracts, through paying higher taxes because these corporations pay less than their fair share, and through the purchase of these firms' products. In addition, our members have contributed their labors to these companies, many of them for periods of 20 to 40 years.

Our members are angry because they have suffered when these rich corporations shut down their American plants, laid off their American workers and opened new factories in foreign countries. It makes no sense to us to see our firms go abroad when this nation has an unemployment rate of 5% or better, when welfare rolls are bulging, when there is social decay in our cities, and when our communities are hard pressed to raise the tax funds needed to support schools and municipal services.

Since 1966, employment in the U.S. electronic components and accessories, radio and TV, and communications equipment manufacturing industries has dropped by over 100,000 workers. These industries turn out some of the most technically sophisticated products on the market, and their manufacture involves the kind of advanced processes and skills for which this country is justly famous.

Our members are angry because the United States is literally abdicating its lead in these fields, shipping abroad the technology, production facilities and know-how involved in them. We believe it is dangerous and shortsighted for this country to yield first place in areas so crucial to its security. If the process that is taking place continues, the U.S. in time will have little of the productive capacity and few workers with the skills needed to make the complex equipment of this space age.

Our members are shocked that the technology that has been developed with the tax funds of the American people should be exported for private profit without so much as a by-your-leave from the taxpayer. We are particularly offended to be told that it's necessary to knuckle down and work harder to meet the competition from abroad, when our corporations have created that competition and when millions of our citizens can't even get jobs to knuckle down to.

We have heard a great deal about the new era in international commerce and the rise of the multinational corporation as the institution that is perfectly adapted to this new era. We know these corporations intimately. They have reached their full flowering in our industry. We have seen them make all the profitable moves—opening plants behind the trade barriers of other nations, licensing out patents, establishing joint ventures with foreign firms, exploiting the loopholes in our nation's tax and tariff structures, taking advantage of special concessions offered by other nations, employing low-wage labor in underdeveloped countries, and even benefiting from currency crises.

Our members have seen how the multinationals built up their own competition in Japan and elsewhere and in order to cope with it have moved to low-wage nations like Taiwan, Mexico and Brazil. Both steps have benefited the companies and hurt their U.S. employees.

When the members of our three unions have their taxes withheld from the pay envelope, they recognize both the justice and convenience of the practice. They believe in paying their fair share. But they are angry when they learn that the payment of foreign taxes by their employers is treated more favorably in the federal tax system than is the payment of state taxes, when they learn that ITT, RCA and the other big firms receive a writeoff for paying taxes abroad that amounts to a reward for exporting our jobs abroad.

Our members are angry because the largest private employer in Taiwan is an American corporation that has shut down plants all over the Eastern U.S.; because the newest products in our industry, developed in this country, are being made in other nations for the American market; because U.S. tariff loopholes have created havens abroad for hundreds of our employers, producing exclusively for the U.S. mraket; because the earliest steps taken in new trade relation with the Soviet Union and Eastern Europe are deals promising to build up those lands as competitors of ours.

This nation's trade crisis has gotten steadily worse since the AFL–CIO and its individual affiliates first called for action. In the 19 months since your distinguished committee member, Representative Burke, and Senator Hartke first introduced their Foreign Trade and Investment Act, the nation has gone through the worst trade deficit year in its history. We have seen things worsen despite several steps taken by the Nixon Administration for the purpose of easing the crisis.

The 1971 devaluation of the dollar did not help in our industries; it simply brought about a reduction in imports from Japan and a compensating increase

in imports from Taiwan, Mexico and other nations whose currency is pegged to the dollar. The temporary surcharge on imports did not help our members, and there was no sign that it was on the way to helping. The economic policies that were supposed to slow inflation and thus make American goods more attractive to the rest of the world did nothing of the kind. (An unnamed "American trade official" is quoted in the December 18, 1972, *Wall Street Journal* as saying, "If you look at U.S. exports on the whole, no more than 20% and maybe considerably less are price sensitive.") We had hoped that the greater attention given the problem of foreign dumping might benefit our members. Recently we learned, however, that three record-size turbine generators for the Grand Coulee Dam have been put up for world-wide bidding, and the present Administration can barely conceal its eagerness to see the Soviet Union, whose industry is completely subsidized, emerge as the low bidder.

We urge this committee to report favorably the Burke-Hartke Bill, which is the one measure before you that deals directly with each and every facet of the complex trade crisis. Our members support this bill because it will keep in Congress' hands the trade powers and responsibilities that rightly belong to you and because, insofar as the executive branch is concerned, it will establish a single agency to deal with trade matters. That agency will have worker representation, a condition that is sadly lacking today as trade policy is proposed and implemented by former high officials of multinational firms.

We support Burke-Hartke because it provides for regulation of multinational corporations, subjecting the export of capital and technology to public interest standards.

The Burke-Hartke Bill will regulate imports, assuring them a share of our growing market while preventing them from destroying American jobs and manufacturing capacity.

In summary, we favor the Burke-Hartke Bill because it is built on the premises that U.S. manufacturing does and should have a future, that jobs are needed at home, and that it is vastly preferable for the rest of the world to raise its standards to match ours than for us to lower our standards to survive against theirs.

We ask the committee to weigh carefully the arguments against this bill. The claim that a trade war would follow enactment is nothing more than a bald assertion, made in reference to a world that no longer exists. The boast that the foreign operations of multinational corporations create more U.S. jobs than they eliminate is unsupported by hard and impartial evidence. The allegation that unregulated imports benefit the consumer is contradicted by the very inflation that besets this nation.

We ask you to examine carefully the track record of those who make these arguments. With all due respect to them, they are the very "experts" who consistently played down the seriousness of the nation's trade deficit until it became simply too great to ignore.

Finally, we ask you to approve the Burke-Hartke Bill as being in the best interests of the people you represent, in your districts and throughout the nation. It is in keeping with the times. It is a bold step when a bold step is needed.

Mr. BURKE. Mr. Schneebeli will inquire.

Mr. SCHNEEBELI. In February, shortly after the second devaluation, I toured an electronic plant in my district. In talking with the manager, following my plant tour, he said that the first devaluation did not have too much of an impact as far as imports from the Far East were concerned. But he felt sure that the second devaluation would have a very positive effect on imports.

Mr. COLLINS. From Japan?

Mr. SCHNEEBELI. Yes. This company has a plant in Singapore as well as two in the United States. The manager thought the second devaluation would bring about a transfer of much of the Singapore operation to the United States. He thought the future for manufacture in the United States was a lot brighter than it had been in a long time.

I hope the devaluations will have a similar effect generally in transferring back to the United States a lot of the runaway production that we have lost.

Mr. COLLINS. I hope so, too.

Mr. SCHNEEBELI. Have you noticed anything along this line?

Mr. COLLINS. I did mention that it is those countries that sort of peg their currency to the dollar. When we drop and they drop the devaluation doesn't show as much as it would in countries such as Japan that up-valued their currency. But, I am not sure about Singapore's relationship.

Mr. SCHNEEBELI. The manager mentioned Singapore specifically, because they have a plant in Singapore.

Mr. COLLINS. I was quite startled to read only this week in the Wall Street Journal in an article on Singapore that they are actually operating now with a tight labor supply. I had always assumed that they had lots of people like lots of other places of vast numbers of people who are just waiting for somebody to bring a job to them. So that the government in Singapore is following a manpower program where they are in that very comfortable stage where they are actually expelling labor intensive industries and seek to concentrate their high capital and high technology activities there.

So that as far as this product from this plant, I think the Singapore leadership will want to keep that high quality, highly sophisticated item there.

On the other hand, if the currency is affected to that degree, the devaluation could have an effect. If it is like Mexico and Taiwan and these other countries which immediately benefit by the devaluations and continue to be benefited by the devaluation, this is the suction effect that I mentioned that has been created that has taken our jobs away.

Mr. SCHNEEBELI. My source is a vice president of his company and I think he knew whereof he spoke. He was elated in contemplating a return of production capacities to our country. I hope that his optimism is borne out.

Thank you very much. I have enjoyed your statement. It is responsive and comprehensive.

Mr. COLLINS. Thank you.

Mr. BURKE. I want to commend you on your statement. It is very factual. I hope that you will see to it that both your summary and the other statement are put in the hands of every Member of the U.S. Congress both in the House and in the Senate. There are a lot of Members who are not aware of all the problems that our trade policy has created. I think it would be illuminating for those Members to read your statement.

Mr. COLLINS. I find with each Member that I have had the opportunity to go to to discuss this with and my colleagues, too, have found that there is quite a surprise that there are these circumstances that are peculiar to the electronics industry. We don't think as well that a one-industry solution will resolve these problems. It is going to happen in many other industry groups, I'm afraid. So we need the Burke-Hartke bill.

Mr. BURKE. When Mr. Goldfinger said there would be a $10 billion dollar holdback in imports from Burke-Hartke, it sounded as if it would be a big shock to world trade. Would the Burke-Hartke bill have that effect?

Mr. COLLINS. I was here yesterday when Mr. Goldfinger and the others from the AFL-CIO testified, and he was talking about the

amount of trade that would be affected under some estimates. The system, the formula for orderly marketing in the Burke-Hartke bill is not an embargo arrangement which shuts everybody else out. It provides an equitable share of the market and hopefully if the market expands the share for the historic exporters would rise proportionately. I don't think that the references made yesterday to such a devastating effect apply at all. We need to have an industry that is viable and competitive domestically. I think that it will play its role and we will have the benefit of prices that the American consumers will recognize as the result of competition between American producers. Up to this point imports have not benefited the consumer. Those labor cost savings that are achieved overseas are not passed on to the consumer in the United States. I think that the orderly marketing provisions of the Burke-Hartke bill are a fair and equitable arrangement and we want to see an expanding market and want to share it with others in the world, but we don't want to lose it totally. We don't want to lose it either to true foreign competitors or lose to overseas subsidiaries of our own employers or used to be employers.

Mr. BURKE. The truth is, as to many of the imports coming in here in the provisions of the Administration bill, that they are seeking to eliminate the American selling price as it applies to benzenoid chemicals and other items, but isn't it true that once these imports eliminate the competition from the domestic market, that their prices rise to the American selling price and that the gap between what it costs to ship the goods over here and what it retails for at the retail outlet is quite big, and that this results in a grouging of the American consumer?

Mr. COLLINS. In the absence of genuine competition and a viable domestic industry, I am reminded of how the big chain stores used to go in and eliminate a Mom and Pop store. They would put their prices down, everybody would flock to over there and the Mom and Pop store would go out of business. After they got control of that market they would set their prices without regard to competition.

Mr. BURKE. That is quite apparent right around the greater Washington area. You can go into one of the big supermarkets—I won't name them—and there is a price differential in one area over another.

Apparently in one area they are getting competition so that they tend to have lower prices in that particular market, and in the area where they don't have the competition they just hike the prices up.

Many comments have been made by previous witnesses about international union bargaining. What do such bargaining goals have to do with the Burke-Hartke bill?

Mr. COLLINS. I heard some of that colloquy yesterday. I wondered really what relevance it had. I didn't think it had any, particularly. I recall Mr. Conable raised the question having to do with international labor standards, and our unions as well as Mr. Abel mentioned that we are affiliates of the International Metal Workers Federation headquartered in Geneva. His union, the Steel Workers, Mr. Bellissimo's union, the IBEW, the IUE, the auto workers, all belong to the metal workers. We don't have worldwide collective bargaining with employers even though they are multinational companies. We have not reached that stage. We have collective bargaining which is going on right now in New York with the General Electric Co. We have the Westinghouse in Pittsburgh right now. But there is really

no international economic bargaining with these employers despite the fact that they are multinational. As to the labor movement internationally, we participate in it, we assist, we counsel, we meet, we compare patterns and in many cases have common employers, but there is no true collective bargaining, economic bargaining going on in our industry groups on a world scale.

Mr. BURKE. I was glad to see your recommendation here on treatment of our trading partner Canada, where there is a great deal of interdependence with one another. They are on our border. It is a very peaceful border and the wages in Canada are very close to ours. They don't have the slave wage conditions up there that they have in the Orient. I think you have made an excellent suggestion here on dealing with our Canadian trading partner as far as the Burke-Hartke bill is concerned. I want you to let your members know that we are not inflexible on this Committee, those of us who support the Burke-Hartke bill. We feel there are some areas that can be modified and that reasonable adjustments can be brought about.

Mr. COLLINS. I might have hesitated to even suggest that difference on the Canadian approach because the AFL–CIO testified and made no mention of it of course. In fact, it is not the position of the AFL–CIO. But Mr. Goldfinger you recall yesterday said that the Burke-Hartke bill is not engraved in stone. I think there is the logic there that it is subject to the action of amendment by the committee.

Incidentally, Mr. Burke, mentioning international activity, our federation in Geneva, the metal workers actually advocate that we proceed and press for national demands in our collective bargaining. We are not talking about worldwide bargaining in our industry despite the fact that we have common employers, multinational employers.

Also, Mr. Burke, if you detected a note of sympathetic treatment of our relationships with Japan I made it because my relationship with the Japanese labor movement has been a very close and personal one. I have made more than a dozen missions to our Japanese electrical counterpart union and I have tried in every way to help them to raise their wage levels and their fringe benefit levels in order to close that gap. But despite all my efforts that gap still exists. I don't know if it has closed appreciably and in the middle of next month when I go there again I will urge them on. I don't think that the solution is at hand through this process but rather through legislative action in each nation.

Mr. BURKE. I think you will find as the Japanese grow more powerful economically their standard of living will be raised. Unfortunately, that won't apply to countries like Korea and Taiwan and Hong Kong. More than likely when we get into China and Russia in the trade agreements they are going to make you will find that the people who invest in foreign plants will be seeking other places like they did years ago when they moved the textile plants from the north to the south. Now they have moved them from the south overseas. They will keep trying to find those low wage countries who exploit human beings the way they have for profit and greed. As long as this goes on there is going to be a continuing fight.

I think you have pointed out graphically what has happened with the groups that you and the other gentlemen on the panel represent here because I have seen it happen right up in my area in the indus-

tries that you people are involved in. You see that the press tables here are empty. They are always here when the U.S. Chamber of Commerce testifies. In fact, the U.S. Chamber was here the other day. You people have a difficult time getting your story across to the public. You have to keep trying, and that is why I suggest that you try to get a copy of your statement in the hands of every Member of the U.S. Congress because they keep reading the newspapers and they keep reading these attacks on the Burke-Hartke bill.

I feel rather lonesome sometimes when some of these great metropolitan newspapers attack the Burke-Hartke bill, but I would rather have them attack it than not say anything about it because at least people start writing to me and asking about it, and then I write back and they understand the problem a little better.

One newspaper hadn't attacked me for almost 60 days and I wrote a rather tough letter to the editor criticizing two previous editorials they had written and that generated three more editorials. Sometimes if you can get them attacking you, you can at least get the spotlight and the attention of the public on the problem which you are trying to discuss. So that despite all the attacks made on the Burke-Hartke bill we are still in there fighting and, like the AFL–CIO we know that we are not in a hard stone position but are flexible.

We hope that we can bring out a trade bill here that is going to improve the economy of the United States and also protect the rights of the working men and women and make a fairer and more equitable tax bill.

Thank you for your appearance and contribution here today.

Mr. COLLINS. Thank you.

Mr. BURKE. Our next witness is Mr. Mitchell Cooper, counsel of the footwear division of the Rubber Manufacturers Association. We welcome you here, Mr. Cooper. You are well known to the committee for your expertise on rubber footwear and rubber products.

If you will identify yourself you may proceed.

STATEMENT OF MITCHELL J. COOPER, COUNSEL, FOOTWEAR DIVISION, RUBBER MANUFACTURERS ASSOCIATION

SUMMARY

Section 103(c) gives the President authority to eliminate the Final List and American Selling Price without coming back to Congress for approval of the terms of the conversion agreement.

During the Kennedy Round the elimination of ASP could be negotiated only on an *ad referendum* basis, and the Trade Bill of 1970 specifically forbade the conversion of ASP on footwear other than on an *ad referendum* basis.

ASP on footwear is neither a "distortion" of or "burden" on trade and its elimination would not be of "substantial benefit" to the United States: A fraction of 1/20 of 1% of total U.S. trade is in footwear subject to ASP, and imports of rubber-soled footwear with fabric uppers constitute 27% of American consumption.

There has been a rapid and dramatic shift in source of waterproof and fabric footwear imports from Japan to Korea and Taiwan.

Since the Kennedy Round several domestic rubber footwear plants have closed, and imports have taken a larger share of the domestic market.

The difficulty of eliminating the Final List and American Selling Price, as well as the record of past efforts to eliminate footwear ASP, dim the prospect that negotiation of this matter can produce an agreement that will not eliminate the domestic industry.

This issue is of such importance to the domestic industry that a provision for a Congressional veto would not be an adequate answer; the Administration should be required to make an affirmative justification of any agreement in this area, and the industry should then be given an opportunity to set forth its views.

Whatever the merits of a liberalized escape clause, it could not be used to restore ASP.

The Administration's stated intention to exclude rubber footwear from preferences to less developed countries should be embodied in the bill.

Mr. COOPER. Mr. Chairman and members of the committee: My name is Mitchell Cooper and I am testifying as counsel to the footwear division of the Rubber Manufacturers Association. The members of this division account for most of the waterproof footwear and rubber-soled footwear with fabric uppers produced in this country. Both kinds of footwear are on the so-called final list. In addition, the duty on rubber-soled footwear with fabric uppers is based on american selling price.

Section 103(b) of the Trade Reform Act states that "the President is urged to negotiate trade agreements with other countries and instrumentalities providing on a basis of mutuality for the reduction, elimination, or harmonization of barriers or other distortions of international trade." Section 103(c) authorizes the President to "take any action required or appropriate to carry out any trade agreement negotiated pursuant to subsection (b), to the extent that such implementation is limited to a reduction of the burden on trade resulting from methods of customs valuation". Lest there be any doubt as to the intent of this language, the section-by-section analysis incorporated in the committee print makes it clear that "agreements relating to American selling price, (and) the final list for example could be implemented under this authority."

This is not the first time the question has arisen as to whether an agreement which would eliminate a method of valuation should be concluded without having its terms subjected to congressional approval. In the course of the Kennedy round, the Senate adopted, with but one dissenting vote, Senate Concurrent Resolution 100, the effect of which was to put the executive on notice that the Senate expected any such agreement to be submitted to Congress prior to adoption. Soon thereafter, the Special Representative for Trade Negotiations made it clear that any negotiation on American selling price would be apart form the general Kennedy round agreement and would be on an ad referendum basis.

Although both the Tariff Commission and the Office of Special Representative spent many hours studying the effect of converting ASP on fabric footwear, although the Tariff Commission arrived at a proposed conversion of the 20 percent ASP rate to 58 percent, although our negotiators persistently decried ASP as an anathema to our trading partners, and although there were lengthy negotiations looking toward conversion, no agreement was reached as to footwear ASP. Why? Simply because our negotiators found that they could not produce an agreement which could stand the scrutiny of the Congress.

I think it fair to say that the Office of the Special Representative was thirsting for the final elimination of the ASP and would have concluded an agreement based on the Tariff Commission figure of 58 percent if Congress had not had such a vital role to play. Such an agreement would have magnified the competitive disadvantage suf-

fered by the domestic industry, for by the time the Kennedy round was concluded, a marked shift in the source of imports from Japan to Korea and Taiwan had invalidated the 58 percent. In effect, there would have been a substantial tariff cut with no reciprocal benefit.

Thus, when the President sent the Congress the Trade Bill of 1969, there was not embodied in it any agreement for the conversion of American selling price on rubber-soled fabric footwear. The bill did, however, contain a proposal to permit the conversion of the 20 percent ASP rate to 20 percent plus 25 cents a pair, but not less than 58 percent, based on export value. While this proposal had the obvious disadvantage of being a unilateral concession, it did recognize the inadequacy of the 58 percent, it deferred the effective date of the conversion of some 2 years, and it offered the opportunity for congressional examination of the merits.

The 1969 bill was not adopted, but the same conversion proposal became part of the 1970 bill. The domestic industry testified in opposition, pointing to further shifts in the trade which had invalidated that conversion just as it had itself invalidated the original 58 percent figure. Between the time the bill was introduced and the time it was ripe for action by this committee, the executive branch confessed error; it admitted that the proposed conversion was inadequate and it withdrew its support. As a result, the bill which passed the House contained a provision proscribing the elimination of ASP on footwear. It is significant that the Ways and Means report accompanying the bill contained the following language: "Elimination of ASP on rubber-soled footwear can only be achieved by submitting for congressional approval any ad referendum agreement the President may negotiate."

In short, the history of this question since the Kennedy round emphasizes the danger of any approach to changing methods of valuation other than on an ad referendum basis, at least so far as American selling price on footwear is concerned. Moreover, in terms of "substantial benefit to the United States, or "reduction of the burden on trade", terms that appear in the bill before the committee, or the economics of this industry, there is no credible reason for giving the President advance authority to implement any agreement eliminating American selling price on rubber-soled footwear or eliminating the final list. In this regard, the following questions should be considered:

One. How much of this country's trade is in footwear subject to ASP? According to the March, 1973, Tariff Commission Report on Customs Valuation, the value of imports of all commodities subject to American Selling Price constituted only 0.8 percent of total imports for the year 1971. ASP footwear imports constituted less than 1/20 of 1 percent of the dutiable value of all imports. This fractional figure should be kept in mind in determining whether the "distortion" or "burden" on trade resulting from ASP on rubber-soled, fabric footwear is of such urgency as to warrant advance authority to the executive branch to eliminate this valuation method on such terms as it sees fit.

To state the matter differently: While this item is of virtually no consequence to the country's overall trade posture, it is of such critical importance to the future survival of this small industry that the Con-

gress should insist on reviewing any agreement which would govern the rules of our competition with foreign footwear manufacturers. And there can be no doubt that the rules of competition would be substantially modified by the elimination of either the final list or ASP; indeed, the Tariff Commission Report on Customs Valuation contains several caveats to this effect.

Two. What are the sources of waterproof and rubber-soled, fabric footwear imports? If you will turn to table 1, attached hereto, you will note the dramatic shift during the past few years. Whereas in 1969 Japan was still the dominant supplier of both waterproof and fabric, its position has eroded since then. In waterproof it went from 2,886,000 pairs, 23 percent of total imports, to 672,000, 5 percent of the total; and in fabric it went from 27,414,000, 62 percent of the total, to 15,709,000, 27 percent. The beneficiaries of this erosion were Korea and Taiwan. This was especially true in fabric; Korea went from 5 percent of the total in 1969 to 33 percent in 1972, and Taiwan went from 17 percent to 27 percent in the same period. Rubber footwear is a labor-intensive industry, which is why virtually all imports are from low-cost countries in the Far East, and also why, as costs have risen in Japan, the competitive advantage has shifted to Korea and Taiwan. This change in import source occurred in spite of the fact that one of the advantages of ASP is that, by basing the rate of duty on American value rather than foreign value, it tends to lessen the advantage of lower-cost exporters. In the face of the barrier allegedly posed by ASP, imports from Korea, whose rubber footwear average hourly wage as of 1970 was about 30 cents—this figure incidently comes from our embassy in Korea which made a report to the Department of Commerce in 1970—rose from 2 million pairs in 1969 to 3 million in 1970, to 13 million in 1971, to 19 million in 1972. One can but speculate on what would have happened if ASP had been eliminated during the Kennedy round, and particularly if it had been eliminated on the basis of the Tariff Commission study of the converted value of imports from Japan.

Three. How has the domestic waterproof and rubber-solid fabric footwear industry fared since the Kennedy round? Since 1967, Uniroyal closed its plants in Woonsocket, R.I., and in Mishawaka, Ind.; the Uniroyal plant in Naugatuck, Conn. has remained open during the past three years only by grace of a waiver of wage increases by the United Rubber Workers Union; Randy closed its plant in Garden Grove, Calif.; Servus gave up the manufacture of fabric footwear in Rock Island, Ill.; and Goodrich gave up the production of waterproof footwear in Watertown, Mass., then moved its fabric footwear operations to Lumberton, N.C., and Elgin, S.C., and finally shut those operations down with the announcement that imports had forced it out of the rubber footwear business. Last year Converse Rubber Co. leased the Lumberton facility under the terms of a Justice Department decree which requires Converse to divest itself of capacity for 7 million pairs of fabric footwear a year; this capacity is still for sale. As table 2 shows, domestic shipments of fabric footwear are running well below the level of the mid-sixties, while imports currently constitute close to 27 percent of domestic consumption and are at a higher level, both in absolute and percentage terms, than they were during the Kennedy round, when the executive branch made such a

large effort to eliminate the ASP "burden" on trade. ASP remains, but imports thrive as never before. It should be noted that it is not possible to set forth waterproof imports' share of the market, since waterproof domestic production is so small that census does not maintain figures on it. We think it safe to say, however, that imports of waterproof footwear continue to constitute between 35 percent and 50 percent of the domestic market.

Four. What is the prospect of obtaining a respectable quid pro quo for converting ASP on footwear? If past efforts are a guide, we cannot hope for much. In 1966, in the middle of Kennedy round negotiations, the Treasury chose to amend the guidelines for the administration of ASP as it applied to rubbersoled footwear with fabric uppers. This amendment resulted in a 35-percent decrease in duties; it was in effect a gratuitous gift to countries exporting this footwear, unilaterally enacted and without benefit of any reciprocity whatever.

Also in the course of the Kennedy round, Ambassador Blumenthal publicly stated that there would be no agreement negotiated for the elimination of American selling price on benzenoid chemicals which did not contain a reciprocal provision of direct benefit to American chemical exports. This position made—and makes—eminently good sense, but it is impossible to apply such a position to rubber footwear, for our export market has long since been lost to low-cost countries. To the best of our knowledge, the executive branch has never given any indication of what the domestic industry might expect as the quid for the quo of losing ASP.

In light of this history of the difficulty of arriving at a fair conversion, of the insignificant share of total trade affected by the final list and American selling price, of the thriving state of imports despite these alleged barriers, of the unhealthy condition of the domestic industrdy, and of executive branch oversensitivity to foreign complaints of ASP and relative lack of sensitivity to the effect of rubber footwear imports on the domestic industry, the administration's request for authority to eliminate the final list and ASP without specific congressional approval is without warrant—at least so far as the products of this industry are concerned. There is here no such "distortion", "barrier", or "burden" as to justify this grant of authority.

Nor would the congressional veto power available under section 103 (c) be a suitable alternative, for, given the nature of the trade in rubber footwear and the danger to the continued survival of the domestic industry if deprived of final list and ASP treatment, the responsibility should be the administration's to justify affirmatively any change in the valuation method made applicable to rubber foot wear. In light of what the Congress knows of this industry and to past efforts to change the method of valuation, you ought not to contend yourselves with the privilege of vetoing a proposed agreement. Events since this committee's report on the 1970 bill have only served to emphasize the wisdom of your comment that "Elimination of ASP on rubber-soled footwear can only be achieved by submitting for congressional approval an ad referendum agreement the President may negotiate."

While title III, chapter 1, of the administration bill liberalizes the criteria for escape clause relief, it would not be applicable to the

problem posed by the elimination of American selling price. If developments subsequent to an agreement to convert ASP were to demonstrate the inequity of the conversion, there is nothing the Tariff Commission could do to restore ASP. The injury would be irreparable, and—given the precarious state of the industry—could be fatal.

As to title VI, we would merely observe that were duty-free treatment to be accorded less developed countries for the manufacture of rubber footwear, there could no longer be such an industry in this country. In addition to the fact that we are labor intensive, the technology for the manufacture of our products is readily available to other countries. At a duty of 37½ percent on waterproof and 20 percent ASP on fabric, we are already being inundated with imports from less-developed countries. To its credit, the administration has not failed to recognize this problem: the President's message accompanying the introduction of this bill stated that "It is our intention to exclude certain import-sensitive products such as * * * footwear * * * from such preferential treatment." And the U.S. list of exceptions in its tariff preferences submission to the OECD in September 1970, does define footwear as including the products of the rubber footwear industry. Yet this matter is of such importance to us that we urge that the exception be written into law rather than resting on an expression of administration intention. Moreover, we are still paying the price of an earlier administration statement of intention with respect to waterproof footwear: In 1965, spokesmen for the executive branch expressed an intention to us and to members of the Senate Finance Committee that the administration would support a conversion of the then 12½ percent ASP rate on waterproof footwear to 60 percent, if we would withdraw our plea to extend ASP to synthetic rubber waterproof footwear. We withdrew our plea—but the executive branch withdrew its support for the 60 percent rate. The result was a conversion to a lower series of rates followed by a marked upsurge in imports. This administration's present intention to exclude footwear from preference treatment is necessitated by the facts; let it be incorported in the law.

We are an industry which has been badly buffeted by imports. But we are not here to seek further protection. We seek only to prevent a dilution of our present level of protection, in order that we may have a fighting chance to stave off further inroads into our already precarious position in the market.

Thank you very much, Mr. Chairman.

Mr. BURKE. Without objection the tables appended to your statement will be included in the record.

Mr. COOPER. Thank you, Sir.

[The material referred to follows:]

TABLE 1.—PROTECTIVE FOOTWEAR AND FABRIC SHOE IMPORTS (IN PAIRS) INTO THE UNITED STATES, 1969 TO 1972

[In thousands]

	Total quantity	Korea		Japan		Taiwan		Hong Kong		Other	
		Quantity	Percent of total	Quantity	Percent of total	Quantity	Percent of total	Quantity	Percent of total	Quantity	Percent of total
Protective footwear with soles and uppers of rubber or plastic (TSUS 700.51, 52 and 53):											
1969	12,286	4,592	37.38	2,886	23.49	2,442	19.88	1,050	8.55	1,316	10.70
1970	14,627	6,210	42.47	2,048	14.00	3,749	25.63	794	5.42	1,826	12.48
1971	12,772	5,493	43.00	1,088	8.52	4,217	33.02	716	5.61	1,258	9.85
1972	13,098	6,898	52.66	672	5.14	3,723	28.42	715	5.46	1,090	8.32
Footwear with rubber soles and fabric uppers (TSUS 700.60):											
1969	44,463	1,908	4.29	27,414	61.65	7,759	17.45	4,711	10.60	2,671	6.01
1970	49,726	3,145	6.32	29,692	59.71	8,473	17.04	4,659	9.37	3,757	7.56
1971	62,842	13,393	21.31	28,686	45.64	14,044	22.35	2,542	4.05	4,177	6.65
1972	58,020	19,183	33.05	15,709	27.08	15,716	27.09	2,904	5.01	4,508	7.77

Source: U.S. Department of Commerce, IM 146 Schedule 7 pt. 1

TABLE 2.—RUBBER-SOLED CANVAS-UPPER FOOTWEAR SHIPMENTS, IMPORTS, EXPORTS, APPARENT CONSUMPTION AND RATIOS, 1963 TO 1972

[In thousands of pairs]

Year	Shipments	Imports	Exports	Apparent consumption	Percent imports to consumption
1963	147,813	28,676	130	176,359	16.3
1964	162,151	29,063	225	190,989	15.2
1965	165,741	33,363	195	198,909	16.8
1966	157,491	35,060	167	192,384	18.2
1967	153,656	44,659	211	198,104	22.7
1968	152,257	49,200	239	201,218	24.5
1969	140,575	44,463	195	184,843	24.5
1970	145,865	49,726	129	195,462	25.5
1971	156,489	62,872	112	219,249	28.4
1972	159,399	58,020	105	217,314	26.7

Mr. BURKE. I want to commend you for your statement. You have graphically outlined the problems of the rubber footwear industry. You mentioned the Randy Shoe Co. that closed out in California. They have a plant in my congressional district. Recently Mr. Shuman brought to my attention what was taking place in the port of New York where million of pairs of sneakers were coming in here on a price of 50¢ a pair.

Mr. COOPER. That is right.

Mr. BURKE. Which indicated that there might be a dumping problem there. This is the type of competition that is costing us thousands of jobs. As you pointed out the Goodrich Co. which formerly employed as high as 7,500 people 12 years ago is now closed down. Of course the Uniroyal Co. moving out of Rhode Island. These plants are being knocked down like tenpins. Of course the elimination of the American selling prices will hit the rubber footwear industry quite hard. It will also hit the chemical industry. In a State like New Jersey that depends upon the income from those chemical plants down there is really going to feel it quite hard. So, I commend you for your statement. I recognize Mr. Schneebeli.

Mr. SCHNEEBELI. Thank you, Mr. Burke.

Mr. Cooper, you may remember the efforts of Mr. Burke and myself in trying to rescue the ASP.

Mr. COOPER. I do, indeed, Mr. Schneebeli. More important, so does the industry.

Mr. SCHNEEBELI. I don't know whether we won or lost, but at least we put up a battle. Now, it looks as if ASP is up for sale again.

Mr. COOPER. From the domestic industry's point of view, and I can only speak for the footwear people, from the rubber industry's point of view the situation today is even more serious than it was during the Kennedy round. During the Kennedy round we were successful in not having our rates cut and not losing ASP. Despite that, the imports keep flooding in.

In relation to what Mr. Burke said about the possibility of a dumping situation resulting from that very serious problem that Mr. Shulman pointed out, I want to assure you gentlemen and other members of this committee that this industry is not depending entirely on members of the Ways and Means Committee to rescue it and to help it to survive. We cannot get along without your help. We cannot get

along if this provision is permitted to remain in the final bill, but I do want you to know that at the same time we are trying to fight this battle on other fronts. We have had a countervailing duty action before the Treasury Department against Korea, and we have recently instituted a countervailing action against Taiwan.

Mr. SCHNEEBELI. Is it too early to find out what the results are?

Mr. COOPER. The Korean investigation, Mr. Schneebeli, commenced in September 1971. There has been no final determination of that, but I must say I do not fault the Treasury entirely on the delay. They have had some degree of success in persuading the Koreans to remove some of the illegal grants and subsidies which are given.

Mr. SCHNEEBELI. I believe Federal agencies, with respect to dumping and countervailing duty complaints, have been a little more up to date in their decisions. I think they have not been delayed as long as they once were. I also think we are getting more decisions that are favorable to American industry, at least in the matter of dumping.

Mr. COOPER. I will have to reserve judgment until I see what happens to our Formosa complaint, and what the result of the Korean situation is. I think there is some reluctance, perhaps understandable, to apply the same standards against underdeveloped countries that apply to Western Europe and Canada, for example. But that reluctance obviously works against the interest of the domestic industry in that kind of situation.

Mr. SCHNEEBELI. Thank you very much. You have given us an excellent statement.

Mr. BURKE. Thank you very much, Mr. Cooper. We appreciate your appearance here.

Mr. COOPER. Thank you.

Mr. BURKE. Our next group of witnesses is James P. Grant, president, Charles F. Frank Jr., and Guy F. Erb, on behalf of Overseas Development Council.

We welcome your panel to the committee. If you will identify yourself and your associates, you may proceed with your testimony.

STATEMENTS OF JAMES P. GRANT, PRESIDENT, CHARLES R. FRANK, JR., AND GUY F. ERB, ON BEHALF OF OVERSEAS DEVELOPMENT COUNCIL

Mr. GRANT. Thank you very much, Mr. Chairman. It is a privilege to be with you here today. On my left is Charles Frank, senior fellow at Brookings. On my right is Guy Erb, senior fellow at the Overseas Development Council. With your permission we would like to file our self and your associates, you may proceed with your testimony.

Mr. BURKE. This being Friday, it is always nice to see witnesses cooperate.

Mr. GRANT. Thank you.

STATEMENT OF JAMES P. GRANT

SUMMARY

The United States and the developing countries are more dependent on each other for trade than they were a decade ago, and this dependence should increase greatly in the years ahead. The developing countries not only provide the United States with ever-increasing amounts of energy and raw materials, but also take one-third of our exports and provide us with a trade surplus.

The developing countries have a vital stake in increased trade with the United States and other developed countries. Exports now account for nearly four-

fifths of their rising foreign exchange earnings, with aid providing a proportionately smaller part. Due to the population explosion and other factors, it will be necessary for the developing countries to achieve an even higher growth rate in the 1970s than in the 1960s, and this in turn will require increased exports of about 10 per cent annually. This will necessitate an annual increase of some 15 per cent in their manufactured exports, to a level of $28 to $30 billion by 1980, since the growth of exports of primary commodities, excluding fuel and minerals, is not likely to exceed 3 to 4 per cent a year.

The United States, as well as most other developed countries, is in the apparently illogical position of imposing proportionately more barriers on poor-country manufactured products than it does on the manufactured products of the industrial countries. This situation will need to change if developing countries are to attain their needed export manufactures in the 1970s.

The proposed Trade Reform Act of 1973 needs several major changes, particularly its limited provisions for preferences for developing countries and its very inadequate provisions for adjustment assistance. The proposed legislation is deficient in relying primarily on improved import restraints to ease the effect of imports on the U.S. economy rather than on facilitating the shift away from inefficient low-productivity industry. The emphasis should be just the opposite if trade is to be expanded rather than restricted.

The importance of an adequate program of adjustment assistance is shown by a recent nationwide survey conducted for the Overseas Development Council on public attitudes toward international issues. The most critical reason selected by the respondents from a list of arguments against free trade was that it put American laborers out of work. However, when asked their views on free trade with developing countries if affected American workers were compensated and retrained, more than half of the people who initially opposed free trade switched. Under those circumstances, free trade with underdeveloped countries would be favored by 2 out of 3 Americans. This is an important finding for it shows that free trade would be accepted widely if only a solution could be found for displaced American workers. This is what the Trade Reform Act of 1973 does not do adequately.

Mr. GRANT. We welcome the opportunity to appear before this Committee in our personal capacities to express our concerns with the Trade Reform Act of 1973 and on its possible impact on our trade and other relations with developing countries, and to recommend some improvements in the proposed legislation.

We believe that the Trade Reform Act of 1973, despite its important constructive aspects, is seriously deficient in terms of advancing U.S. interests with respect to the three quarters of the world's population living in the developing nations. Dr. Frank, on my left, will speak in some detail on the provisions with respect to adjustment assistance, and Mr. Erb will speak with specific reference to the preferences and negotiating authority.

I would like to address in particular the American stake in trade with developing countries and their stake in trade with us, and finally, to summarize briefly relevant portions of a nationwide poll that we have taken that contained a series of questions on trade.

On our mutual stake with poor countries there has been a great change in the past 10 years. As you may know, Mr. Chairman, American exports have more than doubled to the developing world in the past ten years. They are now approximately equal to the total of our exports to the European Community, including the United Kingdom and Japan. One-third of our total exports now are to developing countries. In the past two years our trade with the developing countries has grown more than twice as fast as our exports to the European Community and Japan. We have also had a sizable continuing surplus with these countries at a time when we have been running deficits last year with Western Europe and with Japan.

Second, we have major new needs from developing countries. The current energy needs we have are well known. They are rising rapidly. Less well known is the fact that by the end of the century we probably will be importing a majority of 14 of the 15 principal raw materials that we need for our industry. The developing countries are principal sources for these materials.

Also less well recognized is the fact that we need the manufactured imports from developing countries. We usually hear about the manufactured imports in terms of the problems they cause for our industry, but, as you know, they have a major effect in dampening the rise in the cost of living in the United States, and they do provide important componentry in keeping the price of American products down.

For the developing countries we are a very important market. Their exports in the past ten years to the developed countries as a whole, have more than doubled. Last year something like three-quarters of the $82 billion of foreign exchange that they received came through trade. Of this, manufacturing has provided an increasingly important part. Manufacturers from the developing countries have risen from $2 billion in 1960 to $7 billion in 1970, of which roughly one half is coming into the United States. This is out of total world trade of about $60 billion in manufactures.

For the future the developing countries need substantially better access to the developed countries and they need this because even though they had a good growth rate in the 1960's, the population explosion is making itself felt in these countries. Unemployment is rising, and there is general agreement that the developing countries will need to raise their growth rate of gross domestic product from the 5 percent of the 1960's to 6 to 8 percent a year in the 1970's.

The World Bank has estimated that a 6 percent growth in national product of these countries will require about a 10 percent annual growth in trade. Since the exports of their primary commodities other than fuel and energy tend to increase at a low rate—some 3 to 4 percent annually—it means that their manufactures will have to go up about 15 percent a year. This means that by 1980 the developing countries will need to be exporting $28 to $30 billion worth of manufactures. Our share of that will probably be somewhere in the $12 to $14 billion range.

Their manufactured exports have been increasing at the rate of 15 percent a year for the past 10 years, but from a small initial base.

It must be remembered that trade policies have historically tended to be used against the poor countries. Tariffs after the Kennedy round averaged 12 percent on products from the poor countries. 7 percent on manufactured goods from the industrialized countries. The structure of tariffs tends to work against them. If they ship us hides there is no tariff. If they ship us leather the average tariff goes up, for example, to about 5 percent. If they ship us shoes it goes up to 10 percent.

Nontariff barriers have tended to proliferate very rapidly against developing countries, more so than against the industrial countries, in part because the retaliatory power of the developing countries is very small.

In our judgment the Trade Reform Act needs several changes, particularly in the now-limited, proposed provisions for preferences to developing countries and very inadequate provision for adjustment

assistance. There is in our judgment a danger of further distortion of trade policies against the developing countries and in favor of the industrial countries under the proposed legislation.

With respect to preferences, this is an important measure, but it is an importance that is as much psychological as anything else because of the importance that the developing countries have placed upon it. The World Bank has estimated that if all the industrial countries grant full preferences this would give developing countries about $1 billion worth of extra exports a year out of the additional $20 billion that they need by the end of the period.

The proposed legislation is also deficient in relying primarily on improved import restraints to ease the effect of imports on the U.S. economy rather than facilitating the shift away from inefficient, low-productivity industry. This emphasis should be the opposite if trade is to be exanded rather than restricted. The importance of an adequate program of adjustment assistance is shown by a recent nationwide survey sponsored by the ODC on the public attitude toward international economic issues. The most critical reasons selected by respondents from a list of arguments against free trade is that it would put American laborers out of work. However, when asked for their views on free trade with developing countries if affected American workers were compensated and retrained, more than half of the people who initially opposed free trade switched. Under these circumstances, free trade with developing countries would be favored by two out of three Americans.

This is an important finding for it shows that free trade would be accepted widely if only a solution could be found for displaced American workers. This is what the Trade Reform Act of 1973 does not do adequately.

Thank you, Mr. Chairman.

[Mr. Grant's prepared statement follows:]

STATEMENT OF JAMES P. GRANT, PRESIDENT, OVERSEAS DEVELOPMENT COUNCIL[1]

INTRODUCTION

Charles Frank, Jr., Senior Fellow at Brookings, Guy Erb, Senior Fellow at the Overseas Development Council, and I are all concerned with U.S. relations with developing countries. We welcome the opportunity to appear before this Committee to express our personal concerns with the Trade Reform Act of 1973, and to recommend improvements in it. We believe that the Trade Reform Act of 1973—despite its important constructive aspects—is seriously deficient in terms of advancing United States interests with respect to the three-quarters of the world's population living in the developing nations.

GROWING U.S. STAKE IN TRADE WITH DEVELOPING COUNTRIES

The United States is at the beginning of a new era in its relations with the developing countries, in which trade will have a far more important role than heretofore. We are becoming more dependent on other countries, particularly the developing countries, for continued improvement of our well-being than we were in the early 1960s. The United States was then largely self-sufficient in energy and critical raw materials, and our interest in developing countries was then mainly related to our concern with problems of cold war politics. Today

[1] The views expressed in this testimony are those of the author and do not necessarily represent those of the Overseas Development Council, its directors, officers, or staff.

our increasing dependence on fuel and raw-material imports from many of these countries is the subject of daily headlines. The cost of U.S. imports of energy alone—primarily from developing countries—may be as high as $30 billion by 1985. Our dependency on imports has soared even for such items as edible fish, from 20 per cent twenty years ago to 70 per cent of our consumption today. During the past 8 years, the United States doubled its exports; we will have to do better over the next 8 years, by 1980, if we are to meet our rapidly growing import needs. Our increasing requirements for foreign exchange not only rule out increased protectionism, with all the economic inefficiencies and international retaliation it brings, but require a more efficient U.S. economy and freer trade internationally.

The low-income countries are becoming increasingly important markets for U.S. exports and investments. In 1972, one third of all U.S. exports went to the developing countries—more than went to either the European Community, or Canada, or Japan. In the late 1960s, the United States had a trade surplus with the low-income countries averaging about $2.2 billion per year; last year this surplus diminished sharply to $236 million. U.S. corporations have invested about $28 billion in the developing countries, and their investments are growing at about 10 per cent a year. The United States increasingly needs labor-intensive manufactured imports from developing countries to keep the costs of our manufactures competitive through use of imported components, and to hold down the cost of living. And of course the cost of living has a direct impact on our international competitive position. As part of this broad view, it also should be recognized that the United States is today more involved with the developing countries in a rapidly increasing number of global problems, ranging from environmental issues to the needs of a new monetary system.

DEVELOPING COUNTRIES' NEEDS FOR INCREASED TRADE

The developing countries, in turn, have an equally vital stake in increased trade with the United States and other developed countries. For the developing countries as a whole, export earnings now account for neary four-fifths of their total foreign exchange earnings, with aid playing an ever smaller role in their urgent efforts to emerge from mass poverty. For instance, in 1963, U.S. aid to the poor countries totalled $3.3 billion, while at the same time we paid these countries $6.6 billion for goods we needed from them. In 1972, the comparable figures were $3.3 billion in aid, but $15 billion in imports.

With the exception of the major oil producers, low-income countries need improved access for their products, particularly manufacturers, in the markets of the developed countries over the next 10 years. The great importance of developed-country markets to the poor countries is evident in their size; their *increase* in Gross National Product alone between 1960 and 1970 far exceeded the 1970 total output of the three-quarters of the world's population living in the developing countries.

In the 1960s, the developing countries achieved unprecedented increases in output, with GNP rising at more than 5 per cent annually, and their exports of manufactures rising from approximately $2 billion to $7 billion annually by 1970. Although this rate of growth would have been sufficient to meet the social needs of most developed countries, it was far from adequate for the poor countries for a number of reasons. Foremost among these reasons is the historically unprecedented increase in their work forces resulting from the population explosion. Other reasons include the fact that available technology from developed countries is capital-intensive, and that internal credit and foreign exchange policies have tended to favor the use of capital not labor. This means that a still higher growth rate—at least 6 to 8 per cent—will be needed for the 1970s if unemployment is not to get out of hand. For countries with the capability to export manufactures, the World Bank has estimated that achievement of the 6 per cent growth target will require a 10 per cent annual increase in export earnings at current prices. This in turn will necessitate an annual increase of 15 per cent in the value of manufactured exports, to a level of $28 billion to $30 billion—since the growth of exports of primary commodities, excluding fuels and minerals, is not likely to exceed 3 to 4 per cent a year.

PROSPECTS FOR INCREASED TRADE

Can the developed countries absorb this increase in poor-country exports? The manufactured exports of developing countries did in fact grow at the rate of about

15 per cent a year during the 1960s, but from a very small base. Of these exports, the United States took approximately half. Increased U.S. exports of relatively high-wage products to developing countries have generally matched the increased flow of low-wage, low-skill imports. This has been a classic example of comparative advantage benefiting both. What is needed in the 1970s is that the momentum be maintained, but this will be more difficult from the larger base that now exists. To achieve the 1980 export target of $28 to $30 billion for developing-country manufactures will require adjustments by industrial countries in their manufacturing sectors of a scale that most have been reluctant to undertake. It also will require that the developed countries accord develop-country products more of the equality of treatment that they offer each other.

After nearly 25 years of development assistance for low-income countries, the United States, for example, is in the apparently illogical position of imposing proportionately more barriers to low-income country manufactured products than it does to the manufactured products of its affluent counterparts. This situation is worse today than it was 10 years ago. Thus, following the mutual concessions of the Kennedy Round, the levels of tariffs on imports of manufactured goods between the United States and its rich and poor trading partners respectively averaged 7 per cent and 12 per cent. Non-tariff barriers have proliferated in the last decade, particularly with respect to low-skill products, in which the poor countries have a comparative advantage. But it is not only the *level* of tariffs that works against the developing countries, but the *structure* of developed-country tariffs. For tariffs rise with the degree of fabrication. For example, the United States has no customs duty on most hides and skins, but tariffs on leather are 5 per cent and those on shoes 10 per cent. Finally, for those developing countries primarily exporting basic agricultural commodities, the terms of trade deteriorated noticeably between the mid-fifties and 1970.

TRADE REFORM ACT

If enacted in its present form, the Trade Reform Act of 1973, despite its limited provisions for preferences for developing countries, could result in even greater distortions than exist today in favor of trade between the affluent countries and against imports of manufactures from developing countries. If this distortion is to be avoided, major revisions are needed in the Act's provisions for adjustment assistance in particular, and in its provisions for import relief and preferences. There is much to be said, both in terms of enlightened self-interest and of equity, in favor of the United States giving the same degree of access to U.S. markets to the manufactures of the poorest three fourths of the world as it gives to the manufactures of the industrial countries. After all, the poor countries need increased markets and fair prices for their very survival, whereas the industrial countries are already relatively affluent.

PREFERENCES

Some form of preferential treatment by the United States for the manufactured exports of the developing countries is required if our position as a global leader is not to be damaged. The developing countries have had this issue in the forefront of their agenda with the industrial countries for nearly a decade. Japan, the Nordic countries, and the European Community have already launched preferential schemes for developing countries. The United States has been the principal exception for some time now, despite a clear U.S. commitment in 1970, and despite repeated endorsements of the concept by a range of public officials, including President Nixon.

Having noted the psychological importance of U.S. support of the preferences concept, I should also stress its limited scope. Global preferences would increase the developing countries' exports by only $1 billion a year according to an estimate of the World Bank. This is only a very small portion of their needed increase of more than $20 billion in annual exports of manufactures by the late 1970s. For the United States to make a proportionate contribution to this annual $1 billion increase, the preference proposals contained in the Act would need to be substantially liberalized along the lines proposed by Messrs. Erb and Frank in their testimony today.

Clearly a forthcoming attitude on preferences will help meet the psychological needs of the developing countries. But far more is required. There is always the danger that the mere granting of preferences—now more than two years overdue—will lead many to think that the needs of the developing countries have

been met. The pressing needs of the poor countries must be met not only with trade preferences but also by equal access to the large, dynamic markets of the industrial countries. Therefore, prolonged debate over the needed preference system should not be allowed to obscure and devert energy from the much greater need for more equal access to markets.

EASING AND ACCELERATING THE ADJUSTMENT PROCESS IN THE UNITED STATES

The flow of capital, technology, and managerial know-how across international boundaries today brings in a few months economic changes which formerly required years. This is a product of the revolution in transportation and communication and of the development of the multinational corporation. There is clearly a digestible rate of increase in imports into the United States, and this rate can be greatly increased by governmental action. In order to limit the adverse effect of imports on American firms and jobs, there are two possible types of U.S. Government intervention: (1) assistance to help firms and workers anticipate and adjust to the impact of imports, and (2) import restrictions to protect them from impact of imports.

Adjustment assistance, even though it is potentially far more effective as an economic and social tool than import restrictions, tends to be politically more difficult to adopt, (1) because it requires direct budgetary outlays—even though these may be only a small fraction of the costs to the American public of relying instead on import restraints, and (2) because many established interests threatened by imports—firms, workers, and communities—oppose it on the ground that compensation for out-of-pocket costs does not cover completely the social and other intangible costs of change. It becomes all too easy, therefore, for those determined to hold down budgetary allocations and those resisting change to join forces in opposition to adjustment assistance.

Import restrictions tend to be a politically easier course in domestic terms, but they can lead to a more inefficient, even less competitive U.S. economy, slower national growth, higher costs for the consumer, fewer higher paying jobs, lower foreign exchange earnings—and, equally important, slower growth of the economies of the countries whose goods are restricted.

ADJUSTMENT ASSISTANCE

The Trade Reform Act of 1973 is deficient in that it relies primarily on import restraints to ease the effect of imports on the U.S. economy rather than on facilitating and easing the shift away from inefficient, low-productivity industry. As is detailed in Mr. Frank's testimony, the proposed adjustment assistance provisions are inferior in many respects to the already inadequate provisions of the existing Act. The lack of an effective adjustment assistance program will require the frequent imposition of import restraints which would be unfortunate both for the low-income countries and for the international competitive position of the United States.

Adjustment assistance probably has greater significance for trade with developing countries than for trade with the industrial countries for two reasons. First, as Japan graduates into the high-wage category, low-productivity goods increasingly come from developing countries in the 1970s. It is these products in which the developing countries have a permanent comparative advantage because of lower wages—which sometimes bring about the closures of U.S. plants employing low-productivity labor. In other industries, for example the steel and auto industries, it is easier for American industry to recoup lost ground through new investment and new product design. Plant closures and job losses among low-skill, relatively poorly paid workers, understandably evoke public sympathy for these Americans who are being asked to sacrifice in the national interest without meaningful compensation, while the poor abroad and the high-skill workers and consumers in the United States benefit. There is widespread agreement in the United States that no group should be forced to bear alone the cost of a national policy which benefits the population as a whole; when they are, the result is a public and a Congress sympathetic to demands for import restrictions. Such import restraints are more likely to be demanded and quickly enacted for poor-country imports, since the developing countries, unlike the industrialized countries, have little retaliatory power.

U.S. PUBLIC OPINION

A recent major nationwide survey conducted by the Overseas Development Council underlines the importance of adequate adjustment assistance. The principal reason for opposition to free trade was, of course, concern for American workers who lost their jobs as a result of imports. Yet when asked if they favored freer trade with the underdeveloped countries, provided that a solution could be found for displaced American workers, a large majority of those polled responded affirmatively. I have attached the relevant section of the survey report to my statement but it merits summarizing here.

Of those who expressed opinions, nearly five out of six approved of import restraints on products from *wealthy* countries. But quite surprisingly, only a bare majority favored import restrictions on products from *poor* countries. The principal reason for favoring fewer restrictions on imports from poor countries was a widespread feeling that free trade assisted the economic development of these countries.

The most critical reason for opposing free trade selected by the respondents from a list of arguments against free trade was that it put American laborers out of work. Overall, nearly one out of two respondents felt that this was an important reason for opposing trade with developing countries. White-collar workers and professionals were just as concerned about the problem as were blue-collar workers; upper-income people were even more concerned than were lower-income individuals.

We then took the question one step further. On the assumption that the unemployment argument is the major negative factor behind opposition to freer trade, respondents were asked the following question: "If American workers who lost their jobs because of free trade did not suffer any personal financial loss and were retrained in jobs equal to or better than their old ones, would you basically favor the idea of free trade, or oppose it?" This question was asked only of those respondents who said they opposed free trade with underdeveloped countries or who were not sure. Given this condition, more than half of the people who initially opposed free trade said they would favor it; about one out of four of those who were initially unsure said they would switch to favoring it. This response strongly suggests that, given an adequate program of adjustment assistance for affected workers, free trade with underdeveloped countries would be favored by two out of three people. Free trade would have far wider support if a solution could be found for displaced American workers. Yet adequate adjustment assistance provisions are precisely what the Trade Reform Act of 1973 lacks; instead, the Act places its emphasis on import restraints.

EUROPEAN AND JAPANESE ADJUSTMENT EXPERIENCE

Both the Western Europeans and the Japanese have more efficient systems today for moving their citizens out of low-productivity jobs into more productive jobs than are proposed for the United States under the Trade Reform Act of 1973. Because of their respective systems, Japan and West Germany, for example, have shown much better increases in worker productivity in recent years than has the United States. Japan has not only a relatively full employment situation, which makes a transition from one job to another far easier than it is today in the United States, but Japanese firms are far more reluctant than American firms to fire workers, and they make much greater efforts to transfer and retrain workers within firms. Many Japanese firms are now consciously shifting low-productivity jobs in such fields as textiles and electronics to neighboring countries such as Korea, Taiwan, and Singapore, thereby permitting them to employ more of their scarce labor on higher-productivity jobs. As a consequence, Japan is now not only a net importer of raw silk and cotton yarn, of which it used to be a major exporter, but its imports of cotton textiles are rising very rapidly. The Western Europeans have followed a different but almost equally effective pattern of importing low-wage, low-skill workers from the underdeveloped Mediterranean countries, thereby releasing their nationals for more productive, higher paying jobs. This has enabled them to keep down the cost of their low-productivity goods. Also, when the Europeans have closed down low-productivity facilities, the migrant workers employed by these industries have made little, if any, public outcry, and, if unemployed, have returned to their native countries.

An effective governmental adjustment assistance program is far more necessary for the United States in its efforts to remain competitive through increasing worker productivity and lowering costs than for the other industrial countries. Charles Frank's estimate is that the cost of such a program would

be less than $200 million annually, and $150 million would be a more likely expenditure. This would lessen the need for import restraints, saving consumers millions and possibly billions of dollars, accelerate the shift of workers from low-productivity to higher paying jobs, and permit the United States to absorb more manufactures from the poor countries, thereby helping both the employment and the development prospects of these countries.

THE NEED FOR SAFEGUARDS

But even with an effective adjustment assistance program, there may be instances where a flood of imports exceeds our capacity to adjust. The Administration's Trade Reform Act recognizes this problem and includes a safeguard provision. The danger with any safeguard provision is that it might become a permanent protectionist feature. The Administration's proposal is to be commended in that it would limit any restriction to a temporary period.

Another important feature in the Administration's proposal is the intention that the safeguard system be agreed upon internationally. A safeguard is a protectionist device (albeit temporary). As such, there is always the danger it will trigger retaliation which could lead to fresh rounds of protectionism. To avoid this danger, the Administration is correct in moving to negotiate a multilateral safeguard system. However, one essential feature of a sound safeguard system is missing, namely, the safeguard should be linked through some agreed formula to an adjustment program. In that way even as an non-competitive plant is given temporary protection against too rapid a growth in imports, the plant—or at least its workers—are helped to adjust to other more competitive lines of production.

In other cases, where the non-competitive plant could become competitive by additional capitalization and modernization (e.g., certain steel mills), it may be that temporary protection is enough and government assistance is not necessary. Of course, this must be worked out on a case-by-case basis, but the basic principle should be that the protection is for a temporary period during which the protected industry must adjust to new lines of production, and reform itself so it can compete or phase out.

CONCLUSION

The Trade Reform Act of 1973 represents an initiative in favor of a more liberal trade policy at a time when both the United States and the developing countries have much to gain from greater trade with each other. It is deficient, however, in some important respects. Most importantly, it emphasizes restraints without providing for an effective, associated program of adjustment assistance to cushion the impact of import competition and to accelerate movement away from low-productivity industries. These deficiencies can be expected to have greater adverse effect on manufactures from developing countries than from the industrial countries at a time when the poor countries are already disadvantaged by existing American trade policies.

ATTACHMENT—EXCERPT FROM ODC-SPONSORED NATIONAL SURVEY

ATTITUDES TOWARD FREE TRADE

27a. As you know, the United States puts import taxes, quotas, and other barriers on products coming in from various ocuntries. Considering products coming in from wealthy countries such as West Germany and Japan, would you say you strongly approve, mildly approve, mildly disapprove, or strongly disapprove of import restrictions on goods coming in from wealthy countries?

	Import restrictions	
	Wealthy countries	Underdeveloped countries
Strongly approve	60-1	61-1
Mildly approve	60-2	61-2
Mildly disapprove	60-3	61-3
Strongly disapprove	60-4	61-4
Not sure	60-5	61-5

27b. And considering the products coming in from underdeveloped countries, would you say you strongly approve, mildly approve, mildly disapprove, or strongly disapprove of import restrictions on goods coming in from underdeveloped countries? (RECORD ABOVE)

28a. There has been a great deal of discussion on the idea of free trade between the United States and underdeveloped nations—that is, the lowering or elimination of restrictions on products coming from these countries. Here are some of the things that have been said by people who favor free trade. (HAND RESPONDENT SHOW CARD I) Which one of these statements is the most important reason to favor free trade as far as you are concerned? (RECORD ONLY ONE ANSWER)

A. More export jobs	62–1
B. Helps underdeveloped countries	–2
C. Lower prices	–3
D. Stimulate competition	–4
Not sure	–5

28b. Now, here are some statements by those who oppose free trade. (HAND RESPONDENT SHOW CARD J) Which one statement is the most important reason to oppose free trade, as far as you are concerned? (RECORD ONLY ONE ANSWER)

A. Unfair competition	63–1
B. Intensity of problem of trade balance	–2
C. Put American laborers out of work	–3
D. U.S. too dependent	–4
Not sure	–5

28c. Now that you have read some of the arguments about free trade with underdeveloped countries, would you say you basically favor the idea of free trade, or oppose it?

Favor	64–1 (SKIP TO 29a.)
Oppose	–2
Not sure	–3 (ASK 28d.)

28d. If American workers who lost their jobs because of free trade did not suffer any personal financial loss and were retained in jobs equal to or better than their old ones, would you basically favor the idea of free trade, or oppose it?

Favor it	65–1
Oppose it	–2
Not sure	–3

ATTITUDES ON FREE TRADE

The question of free trade is of great importance to the development community. It is a form of assistance that avoids many of the arguments about giveaways and corrupt governments; and it can have beneficial effect on an underdeveloped nation's economy in a variety of ways. It is also a complex and difficult subject for the average American.

A special series of questions was developed to offset the public's basic lack of understanding of the free trade concept. First, we asked a question on import restrictions, a concept which most people understand. Then, we provided arguments favoring and opposing free trade, thus giving the respondent a basic grounding in the idea of free trade. Finally, we asked his position on free trade, a position which, presumably, was now slightly better informed. The series of questions worked very well, as we will see.

POSITION ON IMPORT RESTRICTIONS

The introductory question in the series read as follows: "As you know, the United States puts import taxes, quotas and other barriers on products coming

in from various countries. Considering products coming in from wealthy countries such as West Germany and Japan, would you say you strongly approve, mildly approve, mildly disapprove, or strongly disapprove of import restrictions on goods coming in from wealthy countries?" The question was then reworded for underdeveloped countries. The results are on the following table.

APPROVAL OF IMPORT RESTRICTIONS ON GOODS COMING IN FROM WEALTHY/UNDERDEVELOPED COUNTRIES [1]

[In percent]

	Import restrictions			
	Approve for—		Disapprove for—	
	Wealthy countries	Underdeveloped countries	Wealthy countries	Underdeveloped countries
Total	72	44	15	39
Education:				
College graduate	77	44	18	50
Some college	75	35	18	55
High school graduate	74	54	15	33
Nonhigh school graduate	65	40	14	33
Occupation:				
Professional/executive	81	48	13	46
White collar	79	52	16	41
Blue collar	71	43	16	39
Age:				
18 to 25	73	36	16	52
26 to 35	78	52	14	38
36 to 50	74	47	15	38
Over 50	65	41	19	34
Income:				
Upper	80	48	14	46
Middle	78	47	15	42
Lower	60	40	17	32

[1] With not sure omitted.

Almost three out of four people (72%) approve of import restrictions for wealthy countries, while only 44 percent approve of import restrictions on goods coming in from underdeveloped countries. College graduates, professionals and upper-income people are more in favor of import restrictions for wealthy countries than are others; and they are more disapproving of import restrictions on goods coming in from underdeveloped countries.

This is the first indication that the question of import restrictions involves factors other than the protection of American industry, at least as far as the respondents are concerned. Better than one out of four people (28%) would be selective in determining restrictions, and he would favor underdeveloped countries. This suggests that there is somewhat more sophistication than we had originally assumed. The next table offers another surprising finding.

REASONS TO FAVOR FREE TRADE

The respondent was handed a card listing four arguments favoring free trade and was then asked the following question: "There has been a great deal of discussion on the idea of free trade between the United States and underdeveloped nations—that is, the lowering or elimination of restrictions on products coming from these countries. Here are some of the things that have been said by people who favor free trade. Which one of these statements is the most important reason to favor free trade as far as you are concerned?"

MOST IMPORTANT REASON TO FAVOR FREE TRADE (SELECTED LIST)

[In percent]

		Education				Age			
	Total	College graduate	Some College	High school graduate	Non-high school graduate	18 to 25	26 to 35	35 to 50	Over 50
Free trade would result in increased American exports and thus would create more jobs in our export industries	9	7	8	10	11	10	8	9	11
Free trade is good for the United States to assist the economic development of underdeveloped countries	40	44	47	39	33	44	42	39	36
Free trade would lower prices for the American consumer by allowing in lower priced goods from other countries	14	12	15	14	15	18	15	11	14
Free trade would stimulate international competition and would open new markets for U.S. products	18	27	22	18	13	15	19	22	16
Not sure	19	10	8	19	28	13	16	19	23

We had expected that a reduction of prices for the American consumer would be the key reason for favoring free trade; and yet, surprisingly it does not even rank in second place. As far as our general population is concerned, the primary reason for favoring free trade is that it helps underdeveloped nations. The next most important reason is because its stimulates international competition. This is followed by the lowering of consumer prices; and finally, that it would bring about more jobs in the export industry.

This should be a very heartening result for the development community, for it means that an informational program that uses as its major argument the benefits gained by underdeveloped countries should be well-received, provided the arguments opposing free trade can be put to rest.

REASONS TO OPPOSE FREE TRADE

We followed the same procedure used above for the opposing view. The responses fell into a more anticipated pattern.

MOST IMPORTANT REASON TO OPPOSE FREE TRADE (SELECTED LIST)

[In percent]

					Income		
	Total	Professional executive	White collar	Blue collar	Upper	Middle	Lower
Free trade would force some American businessmen into unfair competition because of the lower production costs in other countries	14	16	21	13	17	15	12
Free trade would intensify the problem the United States now faces in maintaining a favorable trade balance	14	19	16	11	15	15	12
Free trade would put some American laborers out of work because their jobs can be done by foreign labor at much lower cost	49	47	47	52	53	50	44
Free trade would make the United States too dependent upon other countries for essential goods	5	5	8	4	5	6	5
Not sure	18	13	8	20	10	14	27

Among those opposing free trade, the most critical reason is that it puts American laborers out of work. Overall, one out of two (49%) respondents felt that this was an important reason for opposing free trade. The ideas that it would mean unfair competition, that it would intensify the problem of the trade balance or that it would make the U.S. too dependent upon the resources of other nations are not important compared to the employment question. White-collar workers and professionals are just as concerned about the problem as are blue-collar workers; upper-income people are even more concerned than are lower-income individuals.

Now that we have surveyed the major arguments favoring and opposing free trade, the question is: what now is the position of the respondent on the idea of free trade?

POSITION ON FREE TRADE

The following question was asked: "Now that you have read some of the arguments about free trade with underdeveloped countries, would you say you basically favor the idea of free trade, or oppose it?" In response, we found 41 percent were in favor, 34 percent were opposed and 25 percent were unsure. The following table gives us the breakdown of those in favor compared with those who disapproved of import restrictions on goods imported from underdeveloped countries.

ATTITUDES CONCERNING FREE TRADE

[In percent]

	Before reading arguments—Disapprove import restrictions on goods from underdeveloped countries	After reading arguments—Favor free trade with underdeveloped countries
Total	39	41
Education:		
College graduate	50	52
Some college	55	52
High school graduate	33	36
Nonhigh school graduate	33	33
Occupation:		
Professonal/executive	46	51
White collar	41	39
Blue collar	39	41
Age:		
18 to 25	52	49
26 to 35	38	41
36 to 50	38	39
Over 50	34	37

Here we find an extremely close correlation between a question coming from one direction, asked before the pro and con reasons were offered, and a similar question coming from another direction, asked after the respondent had read the reasons. This leads us to believe that the position on free trade is fairly solid and that the concept is better understood than we had thought, as long as the terms are explained. Free trade would have substantial opposition, but it is fundamentally a concept that meets with approval.

We took it one step further. On the assumption that the unemployment argument would be the major negative factor, a question was structured to set up a condition that would alleviate the problem of unemployment. It was the last question in the series: "If American workers who lost their jobs because of free trade did not suffer any personal financial loss and were retrained in jobs equal to or better than their old ones, would you basically favor the idea of free trade, or oppose it?" This question was asked only of those people who said they opposed free trade (34%) or were not sure (25%).

ATTITUDES TOWARDS FREE TRADE UNDER CERTAIN CONDITIONS

[I n percent]

	Basic attitudes toward free trade	Conditional attitudes toward free trade [1]
Favor	41	67
Oppose	34	15
Not sure	25	18

[1] Conditions: That American workers will suffer no financial loss and will be retrained in equal or better jobs.

STATEMENT OF CHARLES R. FRANK, JR.

Mr. FRANK. As Mr. Grant said, my name is Charles Frank. I am a senior fellow at Brookings, also professor of economics and international affairs at Princeton. My remarks here in no way should reflect the views and opinions of the trustees or officials of either of those institutions. At Brookings I am writing a book on trade adjustment assistance.

Most of my remarks will refer to the title II chapter 20 provisions of the bill concerning adjustment assistance.

First let me say, however, that economic growth and development of the third world has always been in the interest of the United States. There is a growing concensus among experts in economic development that the way to achieve this growth is not through massive aid programs nor through inward-looking autarchic policies on the part of LDC's, but through outward-looking, trade oriented policies on the part of both developed and developing countries.

The third world provides a growing market for U.S. exports of both agricultural commodities and skill—and technology-intensive manufactured products. On the other hand, the LDC's are becoming an increasingly significant source of U.S. imports of energy: scarce minerals; fish and animal protein; low cost labor-intensive manufactured goods; and investment income. One-half of our total gross investment income comes from the less developed world. U.S. goals, both political and economic, can best be served if our relations are increasingly based on mutual recognition of these reciprocal trading interests.

If we are to be receptive to LDC trade initiatives, we must provide for better means of adjusting our structure of production away from their export commodities. This must be done in a way which mitigates the injury caused to those U.S. workers and firms that will be required to move into new, more efficient, and technologically advanced product lines. There are two ways of alleviating the adverse impact of changes in trade and production patterns on U.S. workers and firms: first, temporary restriction of imports through safeguards, and second, trade adjustment assistance. A more vigorous trade policy requires the strengthening of both of these approaches as compared to the 1962 Trade Expansion Act.

The Trade Reform Act provides for strengthened safeguards. At the same time it emasculates an already inadequate program of trade adjustment assistance. The few improvements in the administration bill are far outweighed by the substantial reduction in the level and

duration of worker benefits and the complete elimination of adjustment assistance for firms. Some of the alleged improvements in the proposed bill may prove quite illusory. For example, the administration alleges that liberalized eligibility criteria should enable more workers to receive adjustment assistance benefits. In fact, there may be no greater number of certifications because the Tariff Commission has been increasingly liberal in its interpretation of the existing criteria for adjustment assistance. Between 1962 and December 1969 no worker petitions were approved by the Commission, but between December 1, 1969 and May 1, 1973, 77 petitions were approved, covering nearly 35,000 workers.

Since early 1972 at least eight separate bills have been introduced into Congress which deal with trade adjustment assistance. All of them improve trade adjustment assistance benefits for workers. Senator Schweiker, S. 3708 of 1972, and Senator Ribicoff, S. 3739 of 1972, would increase benefits to workers from the current 65 percent to 75 percent of the workers' wage or the average manufacturing wage, whichever is less. Representative Bingham, H.R. 17133 of 1972, and Representative Seiberling, H.R. 19325 of 1972, propose the benefit level be increased to 80 percent of the worker's highest weekly wage and eliminate any reference to the average manufacturing wage. The bill of Representative Culver, H.R. 4917 of 1973, would increase the benefit percentage to 85 percent and Representatives Aspin and Fraser, H.R. 13854 of 1972, would increase it to 100 percent of the worker's average weekly wage.

The Trade Reform Act is the only bill about which I know that proposes a decrease in worker benefits. Benefits would be 50 percent of a worker's average weekly wage, compared to the existing 65 percent, or two-thirds of the state-wide average wage, whichever is less. The administration claims that some workers would receive a higher level of benefits under their plan than under the 1962 Trade Expansion Act. This is true but deceptive. In every State of the Union, benefits under the administration plan are much less for the great mass of workers, specifically for all those workers who earn less than 130 percent of the average U.S. manufacturing wage. For example, in every State, a worker making $155 a week now may receive a weekly trade readjustment allowance of $100.75. His Trade Reform Act allowance would be $77.50 or less, depending on the State. In half the States, those with a high statewide average wage, only a very high paid worker, making more than 130 percent of the all-manufactring wage, would be entitled to somewhat larger benefits. In many of those states which suffer particularly from import competition, even the highest paid workers would not receive a higher level of benefits under the new Trade Reform Act. This includes all of New England, except Connecticut; North Carolina, and South Carolina.

Even more important that the reduction in the level of benefits is the administration proposal to lower the duration of benefits. Under the current program, workers are entitled to a minimum of 52 weeks of trade readjustment allowances—TRA—and some workers are eligible for up to 91 weeks. The Trade Reform Act would link duration of trade readjustment allowances to the period of eligibility under State unemployment insurance schemes. Currently maximum eligibility in

most States is 26 weeks compared to the 52 to 91 weeks under trade adjustment assistance. At the time a trade-impacted workers loses his job, however, he may only have 5 or 10 weeks remaining of eligibility for unemployment insurance because of a history of frequent layoffs. Since the average trade-impacted worker is unemployed for more than 30 weeks, the great majority of eligible workers will be employed for substantial periods without access either to unemployment insurance or trade readjustment allowances.

The adjustment assistance provisions of the bill are also disappointing in that no real imagination has been used to address some of the basic deficiencies of the existing program. Among others, the following changes, about which I give details in my written statement, are needed:

One. A program of assistance to small and medium-size communities whose labor force, small tradesmen and service industries suffer disproportionately when one or more factories are closed because of import competition. Such a program could be easily implemented by expanding the Presidential charter of the existing Interagency Committee for Economic Adjustment, which operates under the Secretary of Defense and already has a successful and expanding program of assisting communities impacted by military base closings and defense and aerospace contract cutbacks.

Two. A system of early warning by monitoring industry data on production, trade, employment, capacity utilization, and profits. Workers and firms in a trade-impacted industry could be notified in advance of their possible eligibility for adjustment assistance benefits.

Three. Revitalization of the program of adjustment assistance to firms by using an entirely new set of eligibility criteria. Aid has usually been given to the least progressive, least dynamic, financially less viable element of a trade impacted industry. The program must be modified so that it helps the more progressive element of the industry move into more efficient product lines.

Four. Greatly expanded benefits for workers, including more emphasis on training, relocation, and fringe benefits.

Five. A system of budget control. The program need not be open ended as at present. Specific appropriations should be made by Congress, and the law written so that administrators have the flexibility to stay within the budgetary limits.

Six. Special provisions for older workers, including benefits based on length of service, special early retirement, and early eligibility for social security and medicare. Workers displaced by trade tend to be much older than the average unemployed worker, 44 years as compared to 32 years, and thus in need of special help.

Seven. Federal standards regarding notice of plant closings—we are the only advanced country that does not require advanced notice of plant closings—termination of workers, severance pay provisions, and rules concerning interplant transfers and portability of fringe benefits. Most other countries have such rules and standards. The administration proposes to go one small step in the needed direction by introducing legislation on pension vesting and funding.

The expanded program of adjustment assistance which I propose in more detail in the written testimony would not be very costly, about $150 to $200 million a year at most. The cost would be even less if private firms use the tax credit device to relocate workers themselves. I believe that many of the previous estimates of the cost of an expanded

program, in the range of $300 to $500 million, are substantial overestimates. I say that something in the order of $150 to $200 million would do a darn good job.

Major trade legislation in the United States is not passed very often. It may be another ten or twenty years before we get another chance to make needed reforms. It would be tragic if this Act passed with the kind of smasculated program of adjustment assistance it now contains. Some imaginative reforms of trade adjustment assistance could help point the way toward a longer run solution of the high rates of frictional unemployment and lack of job security characteristic of United States labor markets.

Thank you very much.

[The prepared statement of Charles R. Frank, Jr. follows:]

STATEMENT OF CHARLES R. FRANK, JR., BROOKINGS INSTITUTION [1]

I. INTRODUCTION

We are at the beginning of a new era in United States political and economic relations with the less developed countries. It is no longer valid to base our policy largely on giving massive amounts of bilateral foreign assistance, designed to help strategic less developed countries "take-off" into a period of self-sustained growth. A different, healthier approach is evolving—one which emphasizes multilateral rather than bilateral foreign economic assistance, requires a "low-profile" presence in less developed countries, changes the focus of a reduced bilateral aid program to humanitarian assistance and help to a few key sectors, and fosters better trade rather than aid relations with developing countries. The shift in emphasis from aid to trade, however, has been most lagging in its implementation, yet probably the most important change necessary to achieve a set of policies more consistent with United States interests in the third world.

The basic thrust of United States economic policies toward the less developed countries should be to help them achieve a more prominent and cooperative role in a growing world economy, one in which goods and services are traded freely and in increasing volume, private capital is free to move into areas of high return across international borders, and people can move freely about the world for purposes of business and tourism. The less developed countries should be encouraged to remove restrictions on trade and capital investments, including very high tariff rates, import quotas, export subsidies, and administrative controls on repatriation of foreign income and on capital movements. We cannot ask the less developed countries to do this if at the same time we ourselves are becoming more protectionist.

Economic growth and development of the third world has always been in the interest of the United States. There is a growing consensus among experts in economic development that the way to achieve this growth is not through massive aid programs nor through inward-looking autarchic policies on the part of LDC's, but through outward-looking, trade oriented policies on the part of both developed and developing countries.

The third world provides a growing market for United States exports of both agricultural commodities and skill- and technology-intensive manufactured products. On the other hand, the LDC's are becoming an increasingly significant source of U.S. imports of energy; scarce minerals; fish and animal protein; and low-cost, labor-intensive manufactured goods. United States goals, both political and economic, can best be served if our relations are increasingly based on mutual recognition of these reciprocal trading interests.

If we are to foster a growing cooperative relationship with the less developed world. I believe it is most important that we adopt a more effective program of trade adjustment assistance. Most observers recognize that the current system of adjustment assistance is inadequate. I will devote the bulk of my testimony to trade adjustment assistance, but first let me comment on some of the other titles of the Act which are of great importance to the less developed countries.

[1] The views expressed by the author of this testimony are his own and in no way reflect official policy of the Brookings Institution.

II. NEGOTIATING AUTHORITY

An important element in the pursuit of more sensible trade policies toward LDC's is found in Title I of the Trade Reform Act. This title gives the President authority to enter new negotiations on tariff and non-tariff barriers to trade. One can only hope, however, that the U.S. negotiating team will undertake serious negotiations with the less developed as well as the developed countries. Negotiations with the less developed countries should be pursued in a non-patronizing manner, seeking appropriate concessions from them as well as from the developed countries in return for United States concessions. The developing countries themselves should expect to enter the negotiations as responsible participants, not attempting to claim special treatment without some kind of *quid pro quo.*

III. THE GENERALIZED SYSTEM OF PREFERENCES

Title VI of the Trade Reform Act deals with generalized tariff preferences. Preferences to be given under this title, however, are likely to be of limited help to the less developed countries. First, many of the commodities in which the LDC's would be interested would be excluded, either because they are already subject to import relief measures, such as textiles and steel (which the President might not want to disturb) or because they are politically sensitive items, such as footwear (which the President might be reluctant to include in the list of items to receive preferences). Second, exports of a commodity item by a developing country in excess of $25 million or an item exported by a country which supplies more than 50 per cent of the imports of that item to the United States is excluded from preferences. The effect of these various exclusions is that about only one-fifth of all dutiable imports or about one-tenth of all imports from the LDC's in 1971 would have been subject to preferences. The $25 million exclusionary rule will tend to become even much more restrictive through time. The growth of trade volume in manufactures and general inflationary trends should eventually result in many more commodities and countries to which the $25 million rule applies.

The $25 million and 50 per cent rules make no distinction between infra-marginal and extra-marginal exports. That is, unlike the tariff quota system of preferences of the EEC in which imports up to the limit of the quota are duty free, the regular tariff will apply to all imports of an item excluded by the rules. This provides a strong negative incentive to LDC's to export beyond a certain level since, for example, if a country exports $1.00 more than $25 million, all $25 million plus the $1.00 will be subject to duty. This is both an economically inefficient and inequitable way to manage the preference system.

In addition to these exclusions, the Act contains a provision that eligible exports must have a specified percentage of the total value attributable to materials produced and direct processing costs in the exporting country. The percentage can be specified at any level by the Secretary of the Treasury. The Secretary is given no guidelines in the Act as to how this percentage should be set. For example, the Secretary could require that 50 per cent of the value of all eligible exports be attributable to value added in the exporting country, inadvertently, or perhaps purposefully, reducing the number of eligible items by a significant amount.

A number of experts have estimated that even if none of the exclusionary rules described above were applied, the benefits of preferences to the less developed countries would be modest at best.[2] If tariffs among developed countries are successfully reduced by the Geneva negotiations, the value of preferences to LDC's will be even further reduced. Furthermore, some LDC's may be unwilling to give up more valuable "reverse" preferences with the EEC or the Commonwealth, as is required by the Trade Reform Act, if they are to be beneficiary countries.

The President has made a commitment to a system of generalized tariff preferences. Some developing countries may receive modest benefits, but the system could be very much improved. The less developed countries themselves should attach little more than symbolic importance to the passage of Title VI of the Trade Reform Act, even if modified, and the preferences should in no way reduce their desire to participate meaningfully in the main trade negotiations.

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[2] See, for example, Christopher Clague, "The Trade Effects of Tariff Preferences," *The Southern Economic Journal,* Vol. XXXVIII, No. 3 (Jan. 1972), pp. 379–89.

IV. THE ESCAPE CLAUSE AND ADJUSTMENT ASSISTANCE, TITLE II OF THE TRADE REFORM ACT

Exports by less developed countries to the United States are often "politically sensitive", labor-intensive items. If we are to be receptive to LDC trade initiatives, we must provide for better means of adjusting our structure of production away from these commodities. This must be done in a way which mitigates the adverse impacts on those United States workers and firms that will be required to move into new, more efficient, and technologically advanced product lines. There are two ways of alleviating the adverse impact of changes in trade and production patterns: 1) temporary restriction of imports through escape clause measures (now more popularly called safeguard provisions), and 2) trade adjustment assistance. A more vigorous trade policy requires the strengthening of both these approaches as compared to the 1962 Trade Expansion Act.

The administration bill provides for stronger safeguards. The criteria for escape clause relief are liberalized. At the same time, the Trade Reform Act requires that safeguards be truly temporary and conditions the granting of escape clause relief on the formulation of an acceptable adjustment plan for the industry.

The Trade Reform Act, however, emasculates the program of trade adjustment assistance. Supporters cite some improvements:

(1) The Secretary of Labor is given responsibility for determining eligibility of workers. This should speed the process of delivery of adjustment assistance benefits to qualified workers.

(2) The Act contains a new benefit, "job search allowances," to help workers find new jobs.

(3) Relocation allowances for workers are made somewhat more generous.

(4) Eligibility criteria are relaxed.

These improvements, however, are far outweighed by the substantial reduction in the level and duration of worker benefits and the complete elimination of adjustment assistance for firms. Some of the alleged improvements in the proposed bill may prove quite illusory. For example, the administration alleges that liberalized eligibility criteria should enable more workers to receive adjustment assistance benefits. In fact, the Tariff Commission has been increasingly liberal in its interpretation of the existing criteria for adjustment assistance. Between 1962 and December 1969, no worker petitions were approved by the Commission, but between December 1, 1969 and May 1, 1973, 77 petitions were approved covering nearly 35,000 workers. The tendency of the Commission has been to reinterpret the "major cause" provisions of the eligibility criteria much more loosely than has been the case in the past. In fact, the eligibility criteria of the Trade Reform Act might result in no greater number of certifications because of the current loose interpretation of the existing rules.

The Trade Reform Act is the only legislative proposal about which I know in the last few years which proposes to *decrease* worker benefits. The existing adjustment assistance provisions (Trade Expansion Act of 1962) set benefit levels for workers at 65 per cent of the eligible worker's weekly wage or 65 per cent of the average manufacturing wage in the United States, whichever is less. Since early 1972, at least eight separate bills have been introduced which deal with trade adjustment assistance. All of the proposed bills which I have examined call for a strengthening of trade adjustment assistance benefits for workers. Senator Schweiker (S. 3708 of 1972) and Senator Ribicoff (S. 3739 of 1972) would increase benefits to workers from 65 to 75 per cent of the workers wage or the average manufacturing wage. Representative Bingham (H.R. 17133 of 1972) and Representative Seiberling (H.R. 19325 of 1972) propose the benefit level be increased to 80 per cent of the worker's highest weekly wage and eliminate any reference to the average manufacturing wage. The bill of Representative Culver (H.R. 4917 of 1973) would increase the benefit percentage to 85 per cent and Representatives Aspin and Fraser (H.R. 13854 of 1972) would increase it to 100 per cent of the worker's average weekly wage.

The Trade Reform Act proposes benefits which would be 50 per cent of the worker's average weekly wage (compared to the existing 65 per cent) or two-thirds of the state-wide average wage, whichever is less. The administration claims that some workers would receive a higher level of benefits under their plan than under the 1962 Trade Expansion Act. This is true but deceptive. In every state of the Union, benefits under the administration plan are much less for the great mass of workers, specifically for all those workers who earn less than 130 per cent of the average U.S. manufacturing wage. In half the states (those with a high state-wide average wage), a very high paid worker (making more than 130 percent of the all-manufacturing wage) would be entitled

to somewhat larger benefits, the difference depending on how high his average weekly wage has been and how high the state-wide average is. Table 1 compares the benefit levels in all states under the current Trade Expansion Act of 1972 and the proposed Trade Reform Act of 1973 (based on 1972 data). In many of those states which suffer particularly from import competition, even the highest paid workers would not receive a higher level of benefits under the new Trade Reform Act because the state-wide average wage is low. This includes all of New England (except Connecticut), North Carolina, and South Carolina.

TABLE 1.—1972 TRADE READJUSTMENT ALLOWANCES UNDER TRADE EXPANSION ACT OF 1962 AND TRADE REFORM ACT OF 1973

State	Average unemployment insurance weekly benefit, September 1972	Weekly benefit under Trade Reform Act for worker earning 1972 average U.S. manufacturing wage of $154.69	Additional worker benefit under Trade Expansion Act of 1962 for same worker[1]	Weekly benefit under Trade Reform Act for worker making 130 percent of 1972 U.S. manufacturing wage or $201.10	Additional worker benefit under Trade Expansion Act of 1962 for same worker[1]	Maximum weekly benefit under Trade Reform Act ⅔ statewide average weekly wage 1972	Excess of maximum weekly benefit over benefit under Trade Expansion Act of 1962 for same worker[1]
Alabama	$45.49	$77.35	$23.20	$88.23	$18.32	$88.23	−$18.32
Alaska	50.58	77.35	23.20	100.55	0	135.61	35.06
Arizona	52.96	77.35	23.20	100.55	0	103.95	3.40
Arkansas	44.71	74.77	25.78	74.77	25.78	74.77	−25.78
California	56.83	77.35	23.20	100.55	0	113.35	12.80
Colorado	[2] 62.49	77.35	23.20	100.55	0	107.99	7.44
Connecticut	64.43	77.35	23.20	100.55	0	107.07	6.52
Delaware	51.35	77.35	23.20	100.55	0	108.00	8.45
District of Columbia	74.59	77.35	23.20	100.55	0	[3] 117.86	17.31
Florida	44.83	77.35	23.20	89.43	11.12	89.43	−11.12
Georgia	45.56	77.35	23.20	82.69	17.86	82.69	−17.86
Hawaii	65.98	77.35	23.20	93.51	7.04	93.51	−7.04
Idaho	48.46	77.35	23.20	98.23	2.32	98.23	−2.32
Illinois	56.68	77.35	23.20	100.55	0	114.91	14.36
Indiana	43.45	77.35	23.20	100.55	0	119.19	18.64
Iowa	55.36	77.35	23.20	100.55	0	116.10	15.55
Kansas	51.43	77.35	23.20	100.55	0	102.53	1.98
Kentucky	52.56	77.35	23.20	99.14	1.41	99.14	−1.41
Louisiana	50.74	77.35	23.20	100.55	0	103.77	3.22
Maine	49.23	77.35	23.20	82.21	18.34	82.21	−18.34
Maryland	59.18	77.35	23.20	100.55	0	105.05	4.50
Massachusetts	57.00	77.35	23.20	97.58	2.97	97.58	−2.97
Michigan	57.46	77.35	23.20	100.55	0	141.01	40.46
Minnesota	50.09	77.35	23.20	100.55	0	108.55	8.00
Mississippi	39.59	73.35	25.20	75.35	25.20	75.35	−25.20
Missouri	51.81	77.35	23.20	100.55	0	100.56	.01
Montana	43.61	77.35	23.20	100.55	0	113.98	13.43
Nebraska	48.84	77.35	23.20	98.39	2.16	98.39	−2.16
Nevada	61.69	77.35	23.20	100.55	0	116.77	16.22
New Hampshire	52.88	77.53	23.20	84.91	15.64	84.91	+15.64
New Jersey	62.61	77.35	23.20	100.55	0	108.79	8.24
New Mexico	46.50	76.73	23.82	76.73	23.82	76.73	−23.82
New York	59.70	77.35	23.20	100.55	0	105.07	4.52
North Carolina	41.63	75.16	25.39	75.16	25.39	75.16	−25.39
North Dakota	48.27	77.35	23.20	88.49	12.06	88.49	−12.06
Ohio	54.61	77.35	23.20	100.55	0	123.13	22.58
Oklahoma	43.16	77.35	23.20	93.19	7.36	93.19	−7.36
Oregon	46.78	77.35	23.20	100.55	0	112.37	11.78
Pennsylvania	64.89	77.35	23.20	100.55	0	102.95	2.40
Puerto Rico	34.44	77.35	23.20	(4)	(4)	(4)	(4)
Rhode Island	57.53	77.35	23.20	82.95	17.60	82.95	−17.60
South Carolina	44.31	77.35	23.20	77.55	23.00	77.55	−23.00
South Dakota	42.14	77.35	23.20	93.01	7.54	93.01	−7.54
Tennessee	45.15	77.35	23.20	83.51	17.04	83.51	−17.04
Texas	50.51	77.35	23.20	95.94	4.61	95.94	−4.61
Utah	53.14	77.35	23.20	99.30	1.25	99.30	−1.25
Vermont	57.87	77.35	23.20	90.75	9.80	90.75	−9.80
Virginia	47.98	77.35	23.20	84.32	16.23	84.32	−16.23
Washington	85.87	77.35	23.20	100.55	0	119.59	19.04
West Virginia	42.30	77.35	23.20	100.55	0	103.20	2.65
Wisconsin	62.84	77.35	23.20	100.55	0	114.03	13.48
Wyoming	50.92	77.35	23.20	100.55	0	102.36	1.81

[1] Benefit to worker in these three cases would be 65 percent of the U.S. manufacturing wage or $100.65.
[2] Data from May 1972.
[3] Washington SMSA.
[4] Not available.

Sources: 1. U.S. Department of Labor, Bureau of Labor Statistics, Earnings and Employment May 1973, vol. 19, No. 11. 2. U.S. Department of Labor, Manpower Administration, Unemployment Insurance Statistics, Dec. 1972, p. 3.

Even more important than reduction in the *level* of benefits is the administration proposal to lower the *duration* of benefits. Under the current program, workers are entitled to a minimum of 52 weeks of trade readjustment allowances (TRA). A worker in a training program approved by the Department of Labor may receieve an additional 26 weeks of TRA, and workers over age 60 may receive an additional 13 weeks. The Trade Reform Act would link duration of trade readjustment allowances to the period of eligibility under state unemployment insurance schemes. Currently maximum eligibility in most states is 26 weeks but in some states ranges up to a maximum of 39 weeks. At the time a trade-impacted worked loses his job, however, he may only have 5 or 10 weeks remaining of eligibility for unemployment insurance because of a history of frequent layoffs. Under the current legislation, the worker's eligibility for TRA allowances is independent of his current unemployment insurance eligibility; he has a minimum of 52 weeks of eligibility over a two-year period. Thus under the Trade Reform Act, most workers in most states will be entitled to no more than half, some substantially less than half, the period of eligibility to which they are now entitled under current legislation.

I have heard some administration officials claim that the reduction in eligibility is not important since the average period of unemployment is only 12 or 13 weeks. The average period of unemployment, however, does not take into account the fact that a worker may be unemployed several times in the course of a year or two. Under the current legislation, a trade-impacted worker has 52 weeks of eligibility over two years, whether or not his unemployment is continuous. Furthermore, the average age of workers who lose their jobs because of import competition is much greater than the average age of the unemployed worker in general, about 44 years for trade-impacted workers as compared to 31.6 years for all unemployed workers.[3] In addition, trade-impacted workers often lose their jobs in communities with depressed labor markets. All of these factors combine so that the actual average number of weeks of TRA benefits is in excess of 30 weeks and far above the 13 week estimate that one obtains by looking at the length of unemployment of the average unemployed worker.

Both the lower level of benefits and the shorter duration of eligibility serve to thwart the basic objectives of a trade adjustment assistance program, i.e., to provide a reasonable level of compensation to those workers who must bear the heavy burden of job loss so that the great majority of the population may gain the benefits from freer trade. The administration, by failing to provide adequate compensation, has weakened support among some labor unions, consumer interest groups and the Congress for its laudable goal of freer trade. Representative Whalen, for example, can support liberal trade policies in Dayton, where a firm producing printing machinery and employing more than 650 persons was forced to shut down as a result of import competition, and he could couple his advocacy with a plea for more generous adjustment assistance.[4] A representative from Massachusetts might more easily take a responsible position on foreign trade matters knowing that, to date, 19 worker petitions have been approved in Massachusetts, 8 of them in the town of Haverhill alone. Congressman Culver of Iowa, from an area which depends on agricultural and manufactured exports for many of its jobs, advocates liberal trade policies in a speech that includes an appeal for a broadened program of adjustment assistance.[5] Congressman from New England, the industrial South and Midwest, and California, areas hard-hit by import competition, can hardly be expected to be strong advocates of a responsible trade policy if the already inadequate benefits of trade adjustment assistance are reduced.

The adjustment assistance provisions of the Trade Reform Act are also disappointing in that no real imagination has been applied to attempt to solve some of the basic deficiencies of the existing trade adjustment assistance program. Rather than revitalize the lagging program of adjustment assistance for firms, helping the more dynamic segments of a trade-impacted industry to expand into new lines, they propose to abolish it. There is no attempt to help those beleagured small and medium-size communities, whose labor force, small tradesmen, and service industries suffer disproportionately when one or two factories are closed because of import competition. Yet the Defense Department's Office

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[3] The figure of 31.6 years is estimated from data on unemployment by age. See U.S. Department of Labor, Bureau of Labor Statistics, *Employment and Earnings*, Vol. 19, No. 9 (March 1973), p. 27.

[4] See *Congressional Record*, March 29, 1973, pp. E1971–E1974.

[5] See *Congressional Record*, February 28, 1973, pp. H1251–H1253.

of Economic Adjustment is now preparing for a substantial extension of their already successful programs of assistance to communities impacted by defense cutbacks. There is nothing in the bill or the President's message, except for the promise of pension reform, which would shift the worker's burden of adjustment to those large firms which can transfer workers to other plants, give advance notice and termination pay, and provide on-the-job training, counseling and placement services. The bill draws nothing from the successful experience of the Armour Company's Automation Committee[6] and the numerous provisions regarding worker security in the more progressive collective bargaining agreements in the U.S.

V. RECOMMENDATIONS REGARDING GENERALIZED TARIFF PREFERENCES

As I indicated earlier in the testimony, I regard the system of generalized tariff preferences as wholly inadequate in meeting the needs of the less developed countries for greater access to United States markets. There are, however, a number of technical problems with the Trade Reform Act, as drafted, which could give absurd and unintended results and complicate administration.

Section 605(c) excludes from preferences an item for which total exports exceed $25 million *or* from a country supplying over 50 per cent of the United States imports. These rules should be combined and only extramarginal exports should lose preferences. If, for example, a country has, *within one calendar year*, supplied 50 per cent by value of the total imports *of the previous calendar year* of an eligible article into the United States *and* has supplied a quantity of such an article to the United States having a value of more than $25,000,000 *within one calendar year*, that country should not be considered a beneficiary developing country in respect *to further quantities supplied of that article during the calendar year.*

Combining the two rules would eliminate the absurdity of having to deny preferences to small amounts of exports from a country which exports more than 50 percent of an item for which the total volume supplied is very small. It would also avoid the inevitable obsolescence of the $25,000,000 exclusionary rule caused by the effects of inflation and the growth of trade. Finally, the suggested change would eliminate any incentive to play with the application of the exclusionary rules, by applying it sometimes to a sub-classification within a particular tariff category (7-digit TSUSA classification), where the 50 per cent rule is most likely to bite, and sometimes to the tariff category itself (5-digit TSUSA classification), where the $25 million exclusionary rule is likely to come into effect. In any case the Congress ought to be clear as to which type of category the exclusionary rules should apply.

A second important change in the provisions of Title VI involves section 603(b), which gives the Secretary of the Treasury the authority to exclude from the preference scheme any article containing less than a specified percentage of value added in the exporting country. This bestows on the Secretary of the Treasury the power to eliminate, at any time, all meaningful preferences by setting the percentage high enough so that most export articles are excluded. The Secretary ought to be given some legislative guidance. He might, for example, be required to set the percentage so as to eliminate any incentive to trans-ship articles from non-beneficiary countries through beneficiary countries to the United States. The percentage could be limited to less than 20 per cent.

VI. RECOMMENDATIONS ON ADJUSTMENT ASSISTANCE

The provisions of Title II, Chapter 2 of the Trade Reform Act concerning import relief and adjustment assistance are inadequate, especially when taken together. The inclusion of strengthened safeguard provisions with weakened adjustment assistance provisions will make the U.S. more reliant on safeguards to mitigate the impact of import competition since there be an even less viable alternative in the form of adjustment assistance.

A much more adequate program would contain the following basic elements:

(1) *Aid to communities.*—A major part of a more satisfactory program of adjustment assistance is a mechanism for providing help to a trade-impacted community. There is considerable evidence for providing help to a trade-impacted work. The Defense Department has pursued a successful program of assisting

[6] See George P. Schutz and Arnold R. Weber, *Strategies for the Displaced Worker*, New York, Harper and Row, 1966.

communities to adjust to the impact of defense and aerospace cutbacks. With the urging and help of Representative John Brademas, the Federal Government was a leader in coordinating an attack on the severe dislocation which hit South Bend, Indiana on the closing of the Studebaker plant in December 1963. Assistance to trade-impacted communities could be implemented simply by expanding the Presidential charter of the existing Interagency Committee for Economic Adjustment, chaired by the Secretary of Defense. Most of the techniques used by this committee could be applied to trade-impacted as well as defense-impacted communities. In fact, a number of communities now being assisted suffer from dislocations caused by both trade and defense.

(2) *A system of early warning.*—The Trade Reform Act does not include adequate provisions for early warning of firms and workers, which would enable them to prepared adjustment plans or apply for trade adjustment assistance in advance of severe economic dislocation. The Interagency Committee for Economic Adjustment could monitor data on trade, production, employment, profits, and capacity utilization on an industry-by-industry basis. On the basis of analysis of these data, the committee could declare that a particular industry is trade-impacted, and inform firms and workers that they may be eligible to apply for adjustment assistance.

The Committee could develop a set of criteria by which to judge whether an industry is impacted by trade. They might use the following definition of a trade-impacted industry:

(a) both production and employment in the industry have declined, and

(b) there has been an appreciable increase in imports or an appreciable decrease in exports.

This criterion could be administered simply and flexibly and requires data already compiled by the Census Bureau on output, exports, and imports on a 5-digit Standard Industrial Classification basis.

(3) *Relaxed eligibility criteria for workers.*—The liberalized criteria for workers in the Trade Reform Act represents a step forward, although the potential impact is much reduced because of the reduction in worker benefits. The criteria suggested above for defining a trade impacted industry, however, suggest that a more simple criterion could be applied to workers. Once it has been established that a group of workers is associated with a trade-impacted industry, they would be eligible for adjustment assistance benefits if it were determined that the workers' firm or appropriate subdivision had—

(a) suffered a decline in production, and

(b) reduced employment substantially.

The implementation of this criterion would require only a determination that a particular firm belonged to a trade-impacted industry, as defined above, and that employment had declined substantially. Like the industry criterion, it could be administered flexibly.

(4) *Entirely new criteria for firms.*—If it were determined that a firm was associated with a trade-impacted industry, such firm should become immediately eligible to apply for adjustment assistance. The application, however, would be judged solely on the economic soundness of the adjustment proposal and the extent to which it took into account the interests of the firm's workers. This approach should help the more ably-managed and progressive firms in a trade-impacted industry to move into more profitable lines of production. Under the present program, benefits have typically gone to firms on the verge of failure and financial collapse, and, mostly for this reason, the program has been judged a failure.

(5) *More efficient administration and speedier delivery of benefits.*—The Trade Reform Act contains some good proposals which should help in more speedy delivery of benefits. The power to determine eligibility is vested in the Secretary of Labor rather than in the Tariff Commission. This eliminates a procedural step by having the Department of Labor responsible for both eligibility and delivery of benefits to workers. Administration for firms should also be streamlined in this fashion by making the Department of Commerce, or a suitable independent body, responsible for both determinations of eligibility and delivery of benefits. The ease of applying the eligibility criteria described above should allow for more speedy determinations and hasten the delivery process. Our proposals for an early warning system in which firms and workers in an industry would be informed, *in advance*, that they may be eligible for adjustment benefits would also make delivery of benfits more timely.

(6) *A system of budget control.*—One of the criticisms of the adjustment assistance proposals of the 1962 Trade Expansion Act was the open-ended nature of the program from a budgetary point of view. Any group of workers which qualifies for assistance is entitled to receive a specified level of benefits, and any firm which qualifies can receive whatever amount of assistance which is required to implement the approved adjustment plan. With the relaxed eligibility criteria of the Trade Reform Act and the uncertainty as to how these criteria will operate, the need to institute a form of budget control is even more important. One way of achieving this control is to make a multi-year authorization of funds to be allocated to adjustment assistance programs, perhaps combined with annual appropriations. Spending could be contained within the budgetary limits if the Interagency Committee were given enough flexibility in applying the criteria used to declare an industry trade-impacted, and the Secretaries of Commerce and Labor were given some flexibility in the application of the criteria for determining eligibility of individual firms and groups of workers, respectively. Funds allocated to assistance to firms would be parceled out to individual firms on the basis of the quality of their adjustment proposals. If fewer funds become available, higher standards of quality could be applied.

As a general principle, government programs should not be funded in an open-ended fashion; spending levels should be well-defined ahead of time, and funds should be allocated in a manner which most efficiently satisfies the political and economic goals of the program.

The cost to the Federal Government of the kind of program outlined here would not be great. The average number of weeks of TRA benefits under the present program is about 30. The average number of weeks of unemployment insurance is about 17 although this may be expected to rise as more states allow for longer periods of eligibility (let us assume it rises to 20 weeks on the average). If we assume that the average TRA benefit under the new program is 75 per cent of the average manufacturing wage in 1973 (75 per cent of about $170), and the average unemployment benefit is $60, the net cost[7] per worker of TRA benefits under our proposed program would be $2625. In the last three years about 10,000 workers a year have been certified as eligible to apply for adjustment assistance. Perhaps only 7,500 receive benefits, however, some workers never apply and some are turned down because they do not satisfy all of the requirements for benefits to be paid. At the current rate of worker eligibility, therefore, the total cost of TRA benefits under the proposed program would be about $20 million per year. With liberalized eligibility criteria, I believe at the very most 60,000 workers per year would be certified as eligible. Thus the cost of TRA allowances would be about $120 million per year. Perhaps an additional $45 million would be allocated to worker training, counseling, placement, relocation, health benefits, etc. and $35 million to firm adjustment assistance (I would propose that technical and tax assistance to firms be eliminated and that more reliance be placed on loan guarantees rather than direct government loans). The total package would, at most, involve $200 million a year, and $150 million a year would be a more likely estimate. This is a small price to pay compared to the billions of dollars lost to consumers through restrictive trade policies.

(7) *Expanded rather than reduced benefit levels for workers.*—At a minimum the level of trade readjustment allowances to workers should be specified as follows:

(a) 80 per cent of the worker's average weekly wage, or

(b) two-thirds of the state-wide average manufacturing wage, whichever is less.

This formula would give higher TRA allowances to lower paid workers. At the same time, it makes allowances dependent on state wage levels which tend to reflect, at least in part, regional differences in the cost of living.

The duration of benefits should also be improved and based on length of service. A more equitable formula would be the following:

(a) Every eligible worker would receive a minimum of 26 weeks allowance;

(b) an additional 6 weeks of allowance would be given for each year of service with the trade-impacted firm up to 10 years of service; and

(c) an additional 8 weeks of allowance for each year of service over 10 years with the trade-impacted firm.

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[7] We assume here that the Federal Government would pay the difference between unemployment insurance benefits received and the allowable TRA benefit.

Under this formula a worker with 5 years of service would receive 56 weeks of allowance, 10 years of service 86 weeks of allowance, and 20 years of service 166 weeks of allowance.

In addition, workers who lose their jobs because of trade impact should have some provision for maintenance of health insurance, and moving allowances ought to be extended to all workers, not just heads of families.

The 1962 Trade Expansion Act contains a serious flaw in its drafting of eligibility provisions for relocation allowances. In order to apply for a relocation allowance, a worker is required to be eligible for a TRA allowance the week he makes application. Given the delays in determination of eligibilty and in delivery of benefits, many workers received their TRA allowances retroactively and thus were not eligible to apply for a relocation allowance. This flaw could have been corrected by allowing a worker to apply up to one year after he is declared eligible for adjustment assistance benefits. Yet the Trade Reform Act does not make this improvement. Even though delivery should be more rapid under the proposed legislation, the original error is compounded by the fact that the maximum period of eligibility for TRA allowances is much less under the administration plan. Even fewer workers are likely to be eligible to apply for relocation allowances.

(8) *Special provisions for older workers.*—Workers impacted by trade tend to be much older than the average unemployed worker. It is well-documented that older workers tend to be locked into low-skill jobs, have much more difficulty in finding new employment when confronted with loss of a job, and when re-employed are often paid less and subject to frequent layoffs.[8]

A major justification for basing the eligibility period for TRA allowances on length of service is to take special account of older workers with a long history of employment. In addition, however, older workers impacted by trade should be made eligible for special early retirement plans (if they have vested pension rights) and early eligibility for social security and medicare benefits. The Trade Reform Act, on the other hand, eliminates the one special provision for older workers contained in the Trade Expansion Act, the extra 13 weeks of eligibility for TRA allowances for workers over 60.

(9) *Improved training, counseling and placement services for displaced workers.*—The Trade Reform Act properly places emphasis on the use of training, counseling, and placement services for trade-impacted workers. Unfortunately, government activities in this field have been subject to a good deal of criticism recently, and there are cutbacks in many of the existing programs. These services can be made more effective, however, and efforts should continue to be made to do so. In particular, if these services are to be delivered to workers in a timely fashion, administering agencies such as the Manpower Administration of the Department of Labor, must be made more flexible and be prepared to assemble, on short notice, special crash programs of training, counseling and placement for communities faced with sudden economic dislocation as was done in South Bend ten years ago.

(10) *Modification in adjustment assistance benefits to firms.*—The Trade Expansion Act of 1962 provides for three types of adjustment assistance to firms: 1) financial assistance in the form of loans and guarantees, 2) technical assistance, and 3) tax relief. The emphasis of a reformed program of adjustment assistance for firms should be on financial assistance for those firms in a trade-impacted industry which do not have adequate access to private capital markets. Small and medium-size firms, operating in a depressed region with inadequate banking facilities, and associated with a declining, trade-impacted industry, may not have good access to private loan facilities. It is quite proper for government to attempt to remedy this type of market imperfection by providing direct loans or loan guarantees for worthwhile investment projects. Tax relief should be in the form of tax credits for expenses incurred by firms in training, counseling, and relocation of workers to other plants. The current system merely provides special subsidies for some firms at the expense of others and the general public.

Loan guarantees rather than direct government loans should be emphasized. The current legislation provides only 90 per cent guarantees and requires interest

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[8] See William Haber, Louis A. Ferman, and James R. Hudson, *The Impact of Technological Change,* Kalamazoo, Michigan: The W. E. Upjohn Institute for Employment Research, September 1963; Richard C. Wilcock and Walter H. Franke, *Unwanted Workers,* New York: The Free Press of Glencoe, 1963; and Harold L. Shephard, Louis A. Ferman, and Seymour Faber, *Too Old to Work—Too Young to Retire,* Washington, D.C.: Committee Print, Special Committee on Unemployment Problems, United States Senate, 1960, p. 19.

rates on guaranteed loans to be tied to the cost of government borrowing. Both these restrictions sometimes make it difficult to find private financing with government guarantees, and direct government loans have to be made instead. The guarantee level should be raised to 100 per cent and there should be no restrictions on interest rates other than that the administration should be required to solicit funds from several sources on a competitive basis and select the most advantageous loan terms.

(11) *Assistance to firms and workers indirectly affected by trade.*—Some firms may be major suppliers of other firms whose products compete with imports. Unlike the adjustment assistance provisions under the Canadian-American Automotive Agreement in which automotive parts suppliers were provided assistance, the 1962 Trade Expansion Act does not take account of the problems of supplying firms. Manufacturers of heels and soles for shoes, for example, are denied trade adjustment assistance. In order to take into account, at least in part, workers and firms affected indirectly by import competition, workers and firms associated with manufacture of a product of which more than 50 per cent is supplied to a trade-impacted industry should be placed on the same footing as workers and firms in the trade-impacted industry itself. They should be equally eligible to apply for adjustment assistance benefits.

(12) *Adjustment assistance for workers displaced by relocation of a firm's facilities in a foreign country.*—When a firm closes a plant in the United States and at the same time opens a foreign plant producing like or similar products, the displaced worker should be eligible for adjustment assistance. Free international movement of investment capital can be just as injurious to some workers as free trade. The President's message on the Trade Reform Act contains a pledge to seek reforms in the tax law which will reduce some of the incentives for firms to relocate production facilities abroad, but these tax changes will not eliminate this phenomenon.

(13) *Adjustment assistance as a viable alternative to import restrictions.*—The Trade Expansion Act contains identical criteria for escape clause relief (safeguards) and adjustments assistance. An appropriate reform would have been to liberalize access to both escape clause relief and adjustment assistance, but make adjustment assistance easier to get. The Trade Reform Act, however, liberalizes the criterion for escape clause relief and for worker adjustment assistance, but eliminates adjustment assistance for firms. The criteria for safeguards and worker adjustment assistance are no longer identical, and it is not clear which is more liberal. The President is empowered to direct the Secretary of Labor to expedite consideration of worker petitions from industries which are eligible for safeguards, but the Secretary of Labor cannot disregard the legislative criteria for worker eligibility. The net effect of Title II of the Trade Reform Act would be to eliminate adjustment assistance as an obvious alternative to import restrictions.

The system of early-warning and the restoration of adjustment assistance for firms proposed above would help restore adjustment assistance as a viable alternative to import relief. Once an industry were declared as trade-impacted, workers and firms in that industry would be encouraged to apply for adjustment assistance. They might also apply for import relief, but the streamlined procedures for adjustment assistance, which bypass Tariff Commission findings, should enable adjustment assistance to be approved more quickly and serve as a first line of defense. Under the Trade Reform Act, special consideration for worker adjustment assistance is given only after a Tariff Commission finding of injury is reported to the President. Under these procedures, adjustment assistance becomes more of a secondary line of defense against import competition.

(14) *Implementation of related policy measures.*—The need for any form of special trade adjustment assistance for workers would be eliminated if workers in the United States had a much greater measure of job security as do workers in Sweden or Japan. In Sweden all unemployed workers enter training programs. Both workers and the government are notified well in advance of impending investment decisions by private firms which may adversely affect workers. Pensions, insurance, medical care and other benefits are provided through government programs and are portable from job to job.

The United States system of labor relations and manpower policies are very different. Layoffs and terminations are made with extremely short notice. Manpower training programs and government counseling and placement services are much less ambitious in scope. Unemployment compensation and social

security benefits are inadequate. The government role in health care and pensions is more limited.

The message accompanying the Trade Reform Act promises some improvements; namely, federalization of unemployment insurance standards and pension reform. Much more could be done in the area of manpower training, counseling and placement services, and a greater government role in providing adequate health care. Most important, however, would be an improvement in federal regulation of labor relations. Some of the burden of adjustment should be shifted away from the individual worker and the government to private firms. The social costs incurred when firms shift plant locations and freely hire, fire, and layoff workers should be internalized, i.e., made private costs to the firms rather than social costs. Firm behavior toward workers will change in the process and worker security will be enhanced.[9]

The Internalization of social costs can be done in a number of ways. First, any firm which terminates employment of workers in one plant or part of a plant should be required to offer employment to the workers in other plants before hiring new employees in other plants. In other words, a firm could not terminate workers at one plant while hiring workers with similar or lesser qualifications at another plant. Furthermore, transferred employees should be given adequate relocation allowances, full seniority rights, and "flow-back" privileges.[10] All fringe benefits, including vested pension rights, should be fully portable when moving from one plant to another within the same firm. Unions should be required to cooperate in providing portability of union funded benefits, including pensions, when transferring from one local of a union to another or from one union to another.

Second, any firm which terminates a worker should be required to give 90 days notice of termination or full pay in lieu of notice. This would bring U.S. practice more in line with that of other western countries which require notice of termination.

Third, terminated workers should receive, in addition to any pay in lieu of notice, a severance allowance. The redundancy payments scheme in the United Kingdom affords an example of how the government can play a useful role in instituting an adequate system of severance pay.

These types of provisions regarding plant shutdowns and worker terminations are not alien to the United States system of labor relations. Many, more progressive, collective bargaining agreements contain such provisions. The Federal government should merely play a role in helping to accelerate the trend among U.S. corporations in behaving more responsibly toward workers displaced in plant shutdowns, mergers, and consolidations.[11]

Firms, and their officers, or unions which do not abide by reasonable standards regarding transfer rights of workers to other plants, advance notice of termination, severance pay, and pension portability and vesting should be made liable for the costs of adjustment assistance to their workers incurred by the federal government *and* for damages to the affected workers. The Department of Labor could be authorized to bring suit on behalf of the Federal Government and the affected workers against the liable parties. If, however, firms do incur costs themselves in readjusting workers, they should receive a tax credit. Thus, there will be a double incentive for firms to assist in the worker adjustment process.

VII. CONCLUDING REMARKS

The main virtue of the Trade Reform Act is that it represents an initiative on the part of the administration to pursue a more liberal trade policy and a counterbalance to the forces of restrictionism epitomized in the Burke-Hartke bill. The passage of the Burke-Hartke bill would result in enormous costs to the United States consumer, $6.9 to $10.4 billion according to one estimate,[12] and be

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[9] A good example to illustrate this phenomenon is found in the decline in short-term layoffs in industries which have adopted SUB (supplemental unemployment benefit) plans as part of collective bargaining agreements. As firms find they have to pay some of the costs of unemployment, there is less incentive to lay off workers.

[10] Flow-back rights, pioneered by the Armour Automation Committee, enable a worker to transfer to another plant but retain the right to full severance pay and other benefits if the new job does not work out after a limited period.

[11] See "Out of Business: A Plant Shutdown is Always Painful but It Need Not be Merciless: American Oil Co. is Hailed for Its 'Humanitarian' Way of Closing One Refinery," *The Wall Street Journal*, February 28, 1972.

[12] Stephen P. Magee, "The Welfare Effects of Restrictions on U.S. Trade," *Brookings Papers on Economic Activity, 1972*, Washington, D.C.: The Brookings Institution, 1973, pp. 645–708.

extremely damaging to United States foreign policy objectives. The adverse effects abroad would be felt most by the less developed countries, who can least afford them. The only way to avoid the extreme protectionism of Burke-Hartke is to begin to move forward with some kind of proposal such as the Trade Reform Act.

Yet the Trade Reform Act has many deficiencies, the greatest of which concerns the provisions for adjustment assistance. Major trade legislation in the United States is not passed very often. It may be another 10 or 20 years before we get another chance. It would be tragic if this Act passed with the kind of emasculated program of adjustment assistance it now contains. Some imaginative reforms of trade adjustment assistance could help point the way toward a long-run solution of the high rates of frictional unemployment and lack of job security characteristics of United States labor markets.

STATEMENT OF GUY F. ERB

SUMMARY

The United States has a strong interest in improved trade and payments systems that allow all countries to participate fully in expanding levels of world trade. Developing countries have an important role to play in the reformed trade and monetary systems. U.S. economic interests in seeing that both developed and developing countries benefit from the multilateral trade negotiations are based on the importance of developing countries to U.S. export goals and on the contribution which liberalized trade with poor countries can make to the smooth functioning of the international balance-of-payments adjustment process. However, at present, trade barriers facing developing-country trade seriously impede their development.

The Trade Reform Act of 1973 contains provisions for tariff preferences which could help meet the trade needs of some developing countries, and an authority which would enable other developing countries to negotiate with the United States on long-run tariff and non-tariff concessions. The preference system will benefit many poor countries, but others that have already achieved significant trade in manufactured goods and other products may find it more in their interest to participate in the multilateral trade negotiations.

The United States should base its trade policies on strong measures of trade adjustment assistance. If adjustment assistance fails to provide workers and communities with the means to adapt to changing circumstances, then there is a danger that import relief measures might be used to cancel out the trade gains obtained by poor countries from tariff preferences and the trade negotiations.

Mr. ERB. Mr. Chairman, my name is Guy F. Erb. I am a senior fellow of the Overseas Development Council.

Of all the U.S. trading partners, the developing countries have the largest stake in the current discussions of U.S. trade policy. Earlier today testimony referred to the need to export to live that many countries have. Nowhere does this apply more strongly than to the developing countries.

For their part they have no desire to limit imports from the outside world of the many products they need for their growth and development. Thus, poor countries are highly dependent on the existence of an open world economy that will allow them to base their development on a dynamic export sector.

The United States is a major market of vital importance to them. But why should the United States bother with these countries in the determination of its trade policy?

The U.S. economic interest in developing countries was mentioned earlier by Mr. Grant: they are markets for U.S. imports, partners in investment, and sources of energy and raw material.

Furthermore, the role of the developing countries in the international balance of payments adjustment process is becoming increas-

ingly important. Without more effective participation by these countries in a liberalized system of world trade, U.S. balance of payments and trade goals will be more difficult to achieve. The reasons for this are discussed in the first half of my prepared statement.

I believe the U.S. trade policies should, therefore, move towards a correction of the inequitable treatment of developing country trade that now exists. I say inequitable because duties on manufactured goods from poor countries are about double those on imports from rich countries, and because of the nontariff barriers that so severely restrict U.S. and other developed countries' imports from poor countries.

What is the response of the trade bill to developing countries' trade needs? I would like to look at three main areas of the bill: import relief; tariff preferences; and title I, the negotiating authority.

Title II, Import Relief. The ease of access to relief from imports is introduced as an important development, but that could place burdens on the developing countries' growth if the adjustment assistance provisions contained in U.S. legislation do not promote the adaptation of our economy to changing trade patterns and thus the achievement of higher standard of living by many of the world's peoples.

The market disruption component of this title provides that disruption shall occur if imports are substantial, rising rapidly and low in price. Developing countries are liable to be hit hard by the latter two provisions since their imports tend to be low in price if they enter successfully at all in the world market, and they also tend to rise rapidly, coming as they do, from a small base. Great emphasis in the proposal is, therefore, placed on the definition of substantial. This illustrates the importance to developing countries of the discretionary authority that the bill now contains.

The impact of this title on developing-country trade could be quite significant, depending on how it is administered. Thus, import relief, the countervailing and antidumping duties of title III, and the balance of payment authority in section 401 should not be used in such a way that they damage the long run trade prospects of developing countries.

Title VI. Tariff Preferences. The proposed U.S. system of generalized preferences for low-income countries is intended to promote the diversification of the imports from these countries into manufactured and semimanufactured products. The enactment of the proposal would fulfill a U.S. commitment made in 1970, together with other developed countries in the Trade and Development Board of the United Nations Conference on Trade and Development.

The preference scheme is a commendable element of U.S. trade policy toward developing countries. It recognizes the difficulties facing exporters in low income countries and the need for international measures to deal with their trade problem. Implementing the preference scheme will be an indication that the trade policies of the United States can take explicit account of the interrelationship of the trade problems of the poor countries and the achievement of our own trading goals.

An evaluation of title VI should take into account the following factors: eligible articles, the definition of beneficiary countries, and limitation on preferential treatment.

Section 603 on eligible articles limits the preferences to those items not already, or in the future to be, governed by import relief action and other restrictions on U.S. trade. In addition, some items have been transmitted to the Congress by the President as not eligible for preferences.

The danger in this provision is that given these restrictions and the authority in the bill to withdraw at any time an article from preferences, there will be no effective incentive to new investment by local investors in developing countries, or to foreign private investors from the United States and other developed countries. Furthermore, the rule of origin contained in the bill, that is that governing the value which must be added by the producing country itself, could greatly limit the impact of preference treatment.

If a high value-added standard is set it would tend to hit small countries and beginning exporters, the very countries which I assume the bill was intended to help.

Section 604 dealing with beneficiary countries is designed to deal with the specific problem posed by those developing countries now granting what are known as reverse preferences to the European Community. This complicated problem will be resolved by the Community, by the developing countries concerned, and taking into account, no doubt, the provisions of this bill.

It is possible that the practice of extending these reverse preferences, which are often costly to the developing countries concerned, will be abandoned by many of them. Others will not do so and, therefore, will not be eligible for preferences.

Section 605 contains the limitation that preferences will not be granted where imports exceed $25 million, or 50 percent of total imports of a given item. This provision could have a possible large impact on the coverage of the preference scheme. Elimination of these criteria or liberalization of the guidelines would greatly enhance the benefits of the generalized system of preferences.

The provisions of what is known as the 25–50 limitation rule are aimed at benefiting small and beginning exporters, but as we have seen, their benefits will also depend on the application of a rule of origin. The effect of the limitations on the preference scheme is to reduce the coverage to about 10 to 15 percent of the trade of developing countries. For developing countries that were principal suppliers, those occupying the first, second, or third position of TSUSA Items in 1971, about 75 in number, preferential trade would be about $800 million in that year. This assumes rigorous application of the $25 million-50 percent limitation.

Of these countries trading in manufactures, about 70 percent bore in 1971 U.S. tariffs at average or below average rates. I conclude, therefore, that tariff preferences alone cannot do the job of meeting the trade needs of the developing countries. Preferences will not cover much of U.S. dutiable trade with those areas, nor will they deal by definition with problems of the commodity trade or non-tariff barriers. Therefore, I would like to refer to the importance to poor nations of Title I, the authority for negotiations.

I expect that the attention of developing nations will shift to the multilateral trade negotiations in order to deal with their trade interest. This is the likely outcome of the limited U.S. tariff preferences. For

example, for the group of developing countries that were principal suppliers to the U.S. market in 1971, twice as much trade could be considered for tariff concessions within a most-favored-nation—MFN—negotiation as might be covered by the preferences scheme if the various limitations were strictly applied.

Of this trade which might be eligible for negotiations, about 40 percent bore duties of 10 percent or above. That is, a great part of it bore above average duties. Through most-favored-nation tariff concessions by developed countries the poor countries could gain a great deal from their participation in the GATT negotiations.

Active U.S. negotiations with developing countries will pose challenges for us, but they are challenges consistent with the aim of the administration to achieve an open and fair trading system. Participation by developing countries in the negotiation will add an element of complexity to an already complicated series of international relationships. It will also entail consideration of appropriate negotiating strategies as well as policies toward reciprocal concessions taking into account part IV of the GATT and the experience gained in the Kennedy Round.

All these measures are necessary, Mr. Chairman, if the United States is to play a role in the world trading system that corresponds to our economic strength and the leadership potential of the country.

Thank you.

[The prepared statement of Guy F. Erb follows:]

STATEMENT OF GUY F. ERB, SENIOR FELLOW, OVERSEAS DEVELOPMENT COUNCIL[1]

I. U.S. TRADE GOALS AND DEVELOPING AREAS

A major goal of the trade and monetary negotiations now under way is to achieve an improved world economic order in which all countries can trade to their mutual advantage and benefit from improved means of international balance-of-payments adjustment.

Will developing countries benefit from the trade and payments reform which should emerge from the trade and monetary talks? The imperative behind efforts to ensure that they do is the mass poverty of the developing areas that contrasts so sharply with the living standards of most of the population in developed countries. The United States, moreover, has significant economic interests in seeing that developing countries become more active participants in the world economy. The United States now relies heavily on these developing areas for energy and raw materials; they are also markets for a large portion of U.S. exports and recipients of U.S. foreign private investment. About one third of U.S. exports in 1972 went to the developing countries, and U.S. imports from developing countries amounted to 28% of our total imports in that year.

In previous years, the United States tended to run a substantial trade surplus with the developing countries of Africa, Asia, and Latin America. But in 1972, this traditional surplus of about $2 billion dropped to a little over $200 million. In such circumstances it is difficult to ignore any opportunity to improve U.S. export prospects in the developing world. The participation of developing countries in the trade and monetary negotiations, greater U.S. transfers of resources to poor areas for the financing of trade, and measures to improve U.S. competitiveness on world markets can all be seen in this light.

U.S. Interest in expanding world trade

The current debate on the United States energy situation has highlighted the increasing dependence of the economy on foreign suppliers. How can the United States best meet the challenge posed by U.S. energy and other import needs? Could the economy meet import costs by cutting back purchases of non-essential

[1] The views expressed in this testimony are those of the author, and do not necessarily represent those of the Overseas Development Council, its Directors, Officers, or Staff.

goods and applying the savings to payments for essential imports of petroleum, minerals, and other primary commodities? What would be the effect of such a cutback? History strongly suggests that other nations would retaliate by restricting U.S. exports. The United States would therefore see its own exports reduced. The trade wars which occurred in the 1930s offer us a reminder that seeking to run an economy by cutting back on imports from abroad is not an adequate response to the problems posed by foreign trade.

Yet if U.S. foreign trade continues to grow rapidly, the increased bill for basic requirements from abroad will not look as large nor be as difficult to meet as might appear. The import bill will be met in part by earnings on U.S. investments overseas and from sales abroad of U.S. technology and services. Most of the burden, however, must be met by the expansion of U.S. imports. U.S. dependence on the strength of foreign markets will therefore increase. These markets will in turn be linked to the U.S. economy by our policy toward imports from other nations. Thus both the United States and its trading partners could reach new, higher levels of trade.

There are, of course, important domestic implications of expanding international trade. For example, gains can be expected from trade liberalization's effect on domestic price levels. It has been estimated that trade restrictions in force last year may have cost American consumers between $10 and $15 billion. This meant a cost of about $200 to $300 for each American family—a cost amounting to more than the average annual income of a family in many developing countries. Further trade restrictions might raise this per family cost to over $500 per year; a relaxation of trade barriers, in contrast, would reduce the impact of one factor which contributes to high prices in the United States.

There will also be costs resulting from expanding trade, and it must be recognized that gains by large segments of American society may be accompanied by losses suffered by workers, communities, and firms affected by increased imports. Government programs designed to retrain workers, to compensate for job losses, and to provide assistance in finding a new job and relocating are all part of a suitable national response to imports. These measures of adjustment assistance would help workers in affected industries and should spread the cost of that help across the economy as a whole. Thus trade adjustment assistance is the underpinning of policies by the United States that would allow both this country and the developing countries to move to higher levels of world trade.[2]

Although there are costs and adjustments associated with trade, the picture is by no means one-sided. America is registering gains in exports of advanced, or high-technology products. For example, the trade balance on certain high-technology exports increased from about $4 billion in 1965 to almost $8 billion in 1971.[3] Exports of these items increased from over $5 billion in 1965 to over $11 billion in 1971, while imports of similar products were just over $1 billion in 1965 and about $3.2 billion in 1971. The problem before us, therefore, is to ensure that workers and investments can be directed toward those industries with the highest productive potentials, the highest wages, and the best long-run prospects. Doing so would help resolve the trade problems of both this country and those developing nations which are increasing their capacity to trade in relatively labor-intensive products, but which are encountering serious barriers to entry in new markets.

Developing-country trade and the international adjustment process

The export earnings of poor countries account for over 80% of their total receipts of foreign exchange and are a vital component of the economic resources they can apply to their own development. Without a world economy which encourages the continuing growth of the exports of many developing countries, their own efforts to expand their production and improve their living standards will be hindered. Consequently, their participation in world markets—and their purchases of U.S. exports—would also be limited.

While the exports of developing countries as a whole grew at an average rate of 7.6% from 1960 to 1970, within this average many countries' exports grew at much lower rates. Those countries depending on exports of agricultural raw materials were at a particular disadvantage since, on average, exports of those commodities grew about 1% per annum over the decade. Exports of food and live animals fared somewhat better, with an average rate of about 4%. It was

[2] See Charles R. Frank, Jr., Testimony before the House Committee on Ways and Means, 18 May 1973.

[3] In this example, high-technology goods are defined as those which showed an above average ratio of expenditures on Research and Development to product shipments.

only in the cases of commodities such as fuels, minerals and metals, and manufactures that satisfactory or high rates of export growth were achieved.

Compounding the problems of many developing countries is the instability of export earnings affecting many exporters of primary products and raw materials. Although there has been a decline from the high levels of instability of the 1950s, instability of export earnings still amounts to a major problem of trade management for many developing countries.

The characteristics of world demand for many of the commodities produced in developing countries is also a major factor in the slow rate of their export growth. For example, as rich countries grow, consumer demand for some beverages and foods does not respond proportionately to increases in real income. Furthermore, industrialization and technological development in rich countries have made synthetic materials more important: in the 1960s, synthetics took about one third of the expansion in total demand for industrial primary commodities that otherwise would have been directed to natural materials from developing countries. The amounts of raw materials needed for the production of a given product also declined, further reducing demand for the goods of developing countries. Finally, industries which use the raw material exports of developing countries have tended to decline in relative importance, so that the relative share of the demand for certain raw materals has also tended to decline.

Another major impediment to the export growth of poor countries is presented by the trade barriers imposed by their trading partners, both developed and developing. While it is true that developing countries themselves can undertake significant measures to remove obstacles to their mutual trade, for years to come their most significant markets will be in the rich countries. Improved access to developed-country markets for primary products and manufactures is therefore of particular significance to poor nations.

The Trade problems outlined above result in a relative unresponsiveness of the exports of many developing countries to change in price, and consequently to exchange-rate changes. They therefore face difficulties of balance-of-payments adjustment and must often reduce imports in order to move toward balance-of-payments equilibrium. Reductions in imports, of course, also entail a fall in the exports of developed countries. Furthermore, a reduction in imports by a poor country often results in a slowing down of the pace of that country's development which will result in further setbacks for exports to that country.

Thus, developing countries are subject to difficulties in their external accounts which impede their participation in the world economy and limit their trade and investment relations with the United States. Naturally, not all developing countries are affected by difficulties simultaneously, nor are all of them facing the same external situations. Some mineral exporters, for example, have a favorable trade outlook. Other developing countries, whose populations would in different circumstances provide substantial markets for trade, continue to be stymied because of inadequate demand for their products. Others face barriers erected against those new products they can export competitively. Often the difficulties of poor countries are also complicated by large external debts.

Obstacles to developing-country trade

The significance of obstacles to poor-country development is illustrated by the range of non-tariff barriers that affect their exports. These barriers take the form of commercial policy measures such as quotas, voluntary export restraints, licensing arrangements, variable levies, state trading practices, and outright prohibition of trade. Other barriers relate to sanitary regulations, labelling requirements, and standards.

These barriers affect all sorts of products and fall heavily on manufactures—the area which offers the most hope to those developing countries trying to achieve a diversified export trade that could free them from some of the problems facing primary products. About 127 manufactured or semi-manufactured products of export interest to developing countries are restricted in the import markets of one or more rich countries. Trade in these items amounted to about $1.7 billion in 1968, or about 17% of the rich countries' total imports of those products from developing countries in that year. These figures exclude textiles, which are restricted under the Long-term Arrangement on Cotton Textiles—an allegedly temporary agreement which began in the early 1960s and has continued as a brake on trade of poor countries until the present day.

Tariff barriers also remain very powerful obstacles to international trade. A senior U.S. official has stated, "While successive rounds of multilateral negotia-

tions have reduced the relative importance of tariffs, the frequently repeated view that tariffs are no longer significant is clearly wrong."[4] For developing countries, tariffs are particularly significant because previous tariff negotiations—for example, the Kennedy Round—failed to liberalize many tariffs on those items that are of special interest to these countries. Tariff rates applied to products of interest to developing countries are roughly twice as high as those applied to products of developed countries.

Both the nominal and effective tariff rates of the United States and Western developed countries as a whole are much higher on imports from developing countries than on imports from rich countries. For the United States, post-Kennedy Round nominal rates were estimated at 6.8% on imports from developed countries, and at 12.4% on imports from developing countries. Comparable effective rates were 11.6% and 23.9%[5]. Last year, the gap between nominal duties on goods from rich and poor countries narrowed, but it remains substantial: weighted average duties in 1972 were 7.7% on U.S. imports from developed countries, and 11.0% on imports from poor countries. These averages probably understate the level of tariffs on items of interest to developing countries, since tariffs which are so high as to prohibit trade, or maintain it at very low levels, will have zero or low weights in the average. In the Kennedy Round, the average reduction by the major developed countries on products of developing countries was about 20%, while the tariff cut on products of rich countries averaged 36%. Consequently, duties remain at relatively high levels on many goods of interest to developing countries.

A further obstacle to adequate export earnings by developing countries are the barriers facing primary commodities and unstable prices and volume of trade of these goods. Commodity agreements and arrangements have not been altogether successful in the past, but efforts are continuing to obtain better international mechanisms for improving market access and establishing international price mechanisms for trade in primary commodities. These efforts within commodity organizations, the United Nations Conference on Trade and Development, and the Food and Agriculture Organization should be related as closely as possible to the trade negotiations within the General Agreement on Tariff and Trade.

II. THE TRADE REFORM ACT OF 1973

Much of the current debate on U.S. trade policy and the Trade Reform Act revolves around our trading relations with other developed countries, most particularly, the European Community and Japan. I will not address myself to these problems at this time, but rather will concentrate on examining those policies which could ensure that U.S. trade with developing countries can contribute to the smooth functioning of the international adjustment process and the development of the poor countries.

Several features of U.S. trade policy that could affect the developing countries favorably are included in the Trade Reform Act of 1973. There are also portions of the Act which under certain conditions could adversely affect the trading prospects of the developing countries. These aspects of the Act of interest to developing countries will be discussed below under the following headings:

—Import Relief
—Tariff Preferences
—Multilateral Trade Negotiations with Developing Countries.

Import Relief

The Trade Reform Act in its sections on the possible effects of imports in the doemstic economy places greater emphasis on measures to restrain imports than on the active promotion of adjustment to trade. Significant modifications in the means of determining "injury" due to trade have been introduced, and a definition of market disruption has been proposed. With regard to the determination of injury, the test that imports be the "major" cause of injury has been modified. Instead, imports need only be the primary—that is, the largest single—cause. Another previous test of injury required that import increases must have resulted from a tariff concession. This test has been eliminated. These revisions should go a long way toward providing easier access to import relief for American workers and industries. However, their manner of implementation could

[4] John C. Renner, Director, Office of International Trade, Department of State, "National Restrictions on International Trade," January 30, 1971.

[5] Effective tariffs are calculated by taking into account the duties on imported inputs for production.

prove to be disadvantageous for the trade of emerging nations. This concern is based on the possibility that in determining injury, great emphasis may be given by the Tariff Commission to the proposed definition of market disruption.

The Act states that market disruption will be present when it can be shown that imports of a specific article are (a) substantial; (b) increasing rapidly in absolute terms and as a proportion of total U.S. consumption of like or directly competitive articles; (c) entering at prices substantially below those of the U.S. products. All these criteria are subject to varying interpretations which could result in quite different effects on developing-country trade. For growth of non-traditional exports of poor countries. For example, in many cases such exports rise rapidly due to the small base from which they start. Hence much significance may fall upon the criterion that imports occupy a rising share of U.S. consumption. How that share is to be determined is difficult to foresee since any investigation would involve many market considerations.

Developing-country goods tend to be lower in price than competitive products from developed countries, and may therefore be hard hit by the criterion regarding prices of imports. The likelihood that the exports of poor countries probably would be subject to two out of the three criteria would tend to underline the importance of the determination of what "substantial" import levels are. The scope for decisions that would limit access of developing country products in these circumstances would appear to be great, particularly in view of the proposed 90-day period for the completion of the Tariff Commission's investigation.

Thus the proposed import safeguard measures could seriously limit developing-country exports. Moreover, the long-run trade and investment relations of poor countries with the United States could well be adversely affected by the application of import relief measures. The proposed safeguards could curtail trading gains achieved by developing countries through tariff peferences or through U.S. concessions obtained during multilateral trade negotiations. It is therefore of vital importance that import relief measures—and other trade restrictions such as anti-dumping and countrevailing duties—not be used in such a way that they hinder the trade and development of poor countries.

Tariff Preferences

The proposed U.S. system of generalized preferences for low-income countries contained in Title VI of the Trade Reform Act is intended to promote the diversification of the exports of beneficiary countries into manufactured and semi-manufactured products. Enactment of Title VI would fulfill a U.S. commitment made in 1970, together with other developed countries, in the Trade and Development Board of the United Nations Conference on Trade and Development. Sixteen Western developed countries are presently extending tariff preferences to poor countries, as are some Eastern European countries.

The decision to proceed with the U.S. preference scheme is a commendable element of U.S. trade policy toward developing countries. It is a recognition of the difficulties facing exporters in low-income countries and the consequent need for internationally agreed measures to deal with developing-country trade problems. Implementing the preference scheme will be an indication that the trade policies of the United States can take explicit account of the interrelationship of the trade problems of developing countries and the achievement of our own trade goals.

An evaluation of the proposals in Title VI must take into account the following factors: eligible articles, the definition of beneficiary countries, and limitations on preferential treatment.

Eligible Articles.—The Act contains provisions for the determination of eligible articles and the consideration of withdrawal of an article. The possible adverse impact of the latter procedures on developing-country trade was discussed above under the heading Import Relief.

The Act also excludes from preferential treatment articles already restricted by various import relief actions (Section 603 (c) of the Act). The President, moreover, has announced that import-sensitive products—certain steel items and watches, for examples—will not be eligible for preferences. These provisions will have a significant impact on the product coverage of the preferential scheme.

A further possible limitation on eligible articles could result from Section 604 (b) of the Act. Broad authority is granted therein to the Secretary of the Treasury to define the minimum percentage of the value of the final products that must be added within the beneficiary country. This provision could be administered to encourage the industrialization of developing countries or to limit

the impact of the preferential system on their industrialization. For example, if a very high percentage, say 50%, were set as the minimum value added, there would be a substantial reduction in the number of articles that could qualify for preferential treatment. Moreover, it is probable that such a rigorous criterion would be particularly severe in its impact on small countries or on those developing countries just commencing their industrial production for export.

Beneficiary countries.—Most developing countries will be eligible in principle to benefit from U.S. tariff preferences, subject to the qualifications in Section 604 (a) and (b). A prominent qualification would refuse preferences to those countries granting "reverse" preferences to other developed countries, notably the European Community. It is probable that many developing countries now granting reverse preferences to the Community will abandon this practice, thus qualifying as beneficiaries. It is doubtful, however, that those countries that plan long-term ties to the Community—Spain and Turkey, for example—will do so.

In the analysis that follows, it is assumed that preferences will apply to all developing countries of Africa, Asia, Latin America, and Oceania. Within these countries, particular attention is directed in this note to those 72 developing countries and territories that were principal suppliers of specific U.S. dutiable import items in 1971.[6] These countries accounted for almost $3 billion of U.S. dutiable imports, excluding petroleum, textiles, and footwear. They are among those countries that have the most direct interest in U.S. trade policies.

Limitations on Preferential Treatment.—Once the final determination of eligible countries has been made, there are two further significant limitations on preferential treatment. The first is the broad authority contained in Section 605 (a) to "modify, withdraw, suspend or limit" preferential treatment. This provision could upset planning and investment by U.S. and beneficiary-country investors and traders. A means of providing for the expression of the views of all parties affected by such decisions is therefore desirable.

The second major factor limiting product coverage is contained in Section 605 (c), which specifies that a country supplying 50% by value and total imports of an eligible article, or more than 25 million on an annual basis, shall lose preferential treatment. This stipulation that preferences shall be applied only where a "competitive need" is evident was designed to encourage trade by those developing countries that have not yet proved themselves able to compete in world markets for manufacturers and semi-manufacturers. Strict application of this authority, however, could mean a substantial reduction of the number and the value of the eligible items. An example of the significance of this limitation is provided by the sample of countries referred to above. On the assumption that preferential treatment would have been denied to *any* item which exceeded $25 million *or* 50% of total imports, trade of those of the 72 countries eligible for preferences would have fallen by about $700 million in 1971.

Should the "competitive need" formula indeed be considered as a necessary component of the Act, changing the limitation so that exclusion of an item would result only when imports exceeded *both* $25 million and 50% of total imports would add substantially to the benefits received by beneficiary countries. Another, although less significant, modification of the formula could be achieved by guidelines that relaxed the conditions for those items with very low levels of trade—say, less than $1 million. This relaxation would restore to a certain extent the incentives to trade in manufactures provided by the system, without adverse effects on U.S. economic interests or on the trade balance.

If it is the case that once a country has exceeded the limitation contained in the Act it permanently loses preferential treatment for specific items, the "$25 million-50%" limitation could give rise to a form of "voluntary restraint" on developing-country exports. This would occur if an exporting beneficiary country preferred to maintain the preferential margin, instead of seeking an expanding level of trade. Such a result would be contrary to the purposes of the preferential scheme, since the restraints on exports would probably be detrimental to the long-run development of the exporting country. Therefore the suspension of preferential treatment should only apply in any year to the trade which exceeds the "$25 million-50%" limitation in that year.

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[6] A principal supplier is defined as a country that occupied the first, second, or third supplier position for a five-digit item within the Tariff Schedule of the United States Annotated (TSUSA). These 72 countries accounted for over $5 billion of dutiable U.S. imports in 1971, and their share in dutiable imports from all developing countries was over 60 per cent in that year. The data were prepared by Andrew Harris and Mildred Weiss.

Turning again to the developing-country principal suppliers, it is possible to provide a preliminary estimate of the effects of the combined limitations on the product coverage of the proposed system. It is estimated that in 1971, the total value of preferential trade for those counries would have been on the order of $800 million, including eligible manufactures, semi-manufactures, and selected primary products and agricultural products. This trade would have amounted to about 28% of dutiable imports from those countries, excluding petroleum, textiles, and footwear. Of the manufactured items eligible for preferences, nearly 70% bore duties of 10% or below. Thus the bulk of preferential trade in manufactures of these countries in 1971 would have benefited from relatively low margins of preference.

Multilateral trade negotiations with developing countries

The preference scheme described above is aimed at the emerging exporter that has not yet established a foothold in the U.S. market. However, many developing countries have already made significant progress toward full-fledged participation in world markets for many products. Their future development depends largely upon export growth. How will U.S. trade policies respond to the desire of these countries to be admitted as full partners into the world trade system?

Limiting the U.S. trade policy response to tariff preferences cannot do the job. The preferences system will cover only a small proportion of total dutiable imports from developing countries. Therefore, many of them have an interest in levels of most-favored-nation (MFN) tariff rates. Some trade not covered by preferences is in products which pose particular problems, such as petroleum. Other trade flows are in products which are restricted by non-tariff barriers such as the Long-term Arrangement for Cotton Textiles. However, a good deal of the trade *not* covered by tariff preferences will be eligible for consideration for MFN concessions, or for liberalization of non-tariff barriers. For the sample of 72 countries discussed above, the non-preferential U.S. dutiable imports in 1971 that would probably have been eligible for inclusion in the trade negotiations amounted to $1.6 billion, about double the value of dutiable imports that would have been eligible for tariff preferences. As principal suppliers of such imports, they may be expected to voice strong interest in obtaining concessions from the United States. Items subject to non-tariff barriers which might be liberalized would add considerably to the value of the trade of these countries that could be included in trade negotiations.

Therefore, the long-run interest of these countries, and indeed of nearly all developing countries, is in low MFN tariff rates and the significant liberalization of non-tariff barriers to their trade. Some developing countries have expressed concern at the "erosion" of benefits from tariff preferences by concessions on MFN rates. However, the limitations discussed above on the U.S. scheme, and the restrictions placed on schemes of other developed countries, indicate the importance to developing areas of permanent, long-run tariff and non-tariff concessions.

Active negotiations with developing countries will pose challenges for the United States. But they are challenges consistent with the aim of the Administration to achieve an open and fair world economy. Participation by developing countries in the negotiations will add an element of complexity to an already complicated series of international relationships. It will also entail consideration of appropriate negotiating strategies, as well as policies toward reciprocal concessions, taking into account Part IV of the General Agreement on Tariffs and Trade and the experience gained in the Kennedy Round. All these measures are necessary, however, if the United States is to play a role in the world trading system that corresponds to its economic strength and leadership potential.

Mr. BURKE. Does that complete the statement of the entire panel?

Mr. GRANT. That completes the statement.

Mr. BURKE. Mr. Schneebeli is recognized.

Mr. SCHNEEBELI. Thank you, Mr. Chairman.

To the best of my knowledge you are the first group of witnesses in these hearings who have focused on problems with respect to developing countries. I think this is highly desirable, and I am grateful that you have done so.

Certainly trade is a lot better than just aid. If we help build up a country industrially, we don't need to worry so much about aid in the future.

I believe there are indications that the gap between developed and developing countries continues to widen. As developed countries progress at a rapid rate, the developing countries progress at a less rapid rate and fall back even further. This is not encouraging.

On another subject, Mr. Frank, in discussing adjustment assistance you did not limit yourself to assistance to those displaced through our trade with developing countries, did you?

Mr. FRANK. I was talking about general adjustment assistance.

Mr. SCHNEEBELI. Were you surprised that the U.S. Chamber of Commerce suggested that payments be based on 75 percent of the displaced worker's pay? I was rather surprised at that.

Additionally, what do you think of guidelines already established for assistance to firms, a portion of whose production has been displaced by imports? Do you agree with these?

Mr. FRANK. No, I don't. I think the basic fault, however, is in the 1962 Trade Expansion Act. There are many statutory provisions by which they must abide that require them to go through quite a number of time-consuming administrative procedures. The eligibility criteria, and the way they are administered, also make it very difficult for Commerce because by the time firms come to them they are sometimes operationally moribund, on the edge of financial collapse. It is very difficult to help a firm which reaches that kind of a position.

Mr. SCHNEEBELI. Do you go into detail in your supporting statement?

Mr. FRANK. I do.

Mr. SCHNEEBELI. I expressed my concern during a recent hearing about the problem of a small company that might be eliminated totally with the removal of ASP. The impact on industries, whether large or small, would vary greatly, and I don't know what practical assistance you can give to someone who is out of business totally.

Mr. FRANK. I think the key is to get to him early before he gets into the straits that make it difficult to resuscitate him.

Mr. SCHNEEBELI. Let us take the benzenoid industry. If it is put out of business by removal of the ASP, I don't know that there is much flexibility, current or proposed, is there?

Mr. FRANK. I don't know much about the benzenoid industry. I would doubt that there is.

Mr. SCHNEEBELI. Since you are at Princeton, and a lot of these firms are concentrated in New Jersey, maybe you could find out.

It is a real threat, not illusory as you have indicated. It can be argued that we should not be giving taxpayers' money to a big industry like du Pont, just because they lose 1 percent of their overall volume. But, on the other hand, when a small businessman loses out entirely, it is a different situation and we have a whole gamut of problems and guidelines that I think should be spelled out.

Mr. FRANK. May I give the basic outlines. I agree with you. I think you have to treat the small firm quite differently than the large du Pont or multinational firms. I believe the key in helping the small firms is probably to give aid to them early, and to work in terms of giving them technical assistance and loan guarantees. The loan guar-

antee provisions of the 1962 act have made it very difficult for the Department of Commerce to really provide loan guarantees. There are some real technical problems here.

Mr. SCHNEEBELI. For instance, the witness who testified just ahead of you represents a business that probably has no place to go. They make rubber footwear, period. If they are out of business, they are out of business. They are not in the general shoe business. They are specialized.

Mr. GRANT. I just want to underline again the importance of the adjustment assistance to ease the transition.

Mr. SCHNEEBELI. The adjustment assistance provisions were inadequate in the 1962 act. At least, the implementation of them would indicate that.

Mr. GRANT. I commend to your attention, at your convenience, the last pages of my written statement which details the result of a nationwide poll, a sample of over 1200 people, on their attitudes toward free trade. It came out very clearly there that a majority of the people were for restraints on imports unless there could be an adequate provision to take care of the people who get hurt. But once you put in the proviso that people who were affected adversely get taken care of reasonably well, there is an overwhelming majority for free trade.

Mr. SCHNEEBELI. Would you give me your definition of a developing country? When does a developing country become a developed country? Take the case of Mideast countries, where we get much of our oil. Under one set of criteria they could be considered developing, I would think, because they have very little manufacturing, et cetera. But they are rather well developed in other respects; when it comes to generating an accumulation of our dollars, for example.

Mr. GRANT. Let me refer to my colleague, Mr. Erb.

Mr. ERB. This question is one which has plagued international organizations for years. I am not proposing to submit to you a definitive list of developing countries. Generally speaking, I have assumed that all poor countries in Africa, Asia, Latin America, and Oceania would be eligible for preferences, subject to some specific limitations. Moreover, oil-producing countries would probably not benefit from the scheme because of the nature of their exports. They have not developed a large manufacturing export sector.

Mr. SCHNEEBELI. If I may interrupt at this point, how about Bolivia and Colombia? They are good sources of oil. When do they go from developing to developed?

Mr. ERB. I would think they move to developed when the standard of living rises substantially, when their development becomes generalized throughout the country, and income reaches a level that some people would set at $1,000 per capita income. Other people would say why so low: Why should it not be as high as Western Europe or the United States?

Mr. SCHNEEBELI. Are developing countries defined in the GATT Agreement?

Mr. ERB. Yes, there is a provision for treatment of less developed contracting parties of the GATT. In the negotiation we assume that any developing country, will be allowed to participate in the negotiations, even though it is not a member of GATT.

Mr. SCHNEEBELI. There is a rather flexible transition, is there not?

Mr. ERB. Spain is a country that is about to pass. I mentioned countries that will probably choose not to give up their relations with the European Community because they are entering into a relation of parity with European countries. I think that Spain is a good example of such a country, and one which has developed a great deal in the last 10 or 20 years.

Mr. SCHNEEBELI. Is South Africa a developed or developing country?

Mr. ERB. Generally it is considered to be developed.

Mr. SCHNEEBELI. Is that the only nation in the area?

Mr. ERB. In Africa?

Mr. SCHNEEBELI. Egypt is not.

Mr. ERB. Egypt is not. I would hesitate to say what the preferential treatment of a country like Tunisia would be for reasons pertaining to its relations with the European Community.

Mr. SCHNEEBELI. I am tempted to ask about Ireland.

Mr. ERB. Ireland is not considered a developing country.

Mr. BURKE. It is not on our list as being an undeveloped country. Actually it is not listed as an undeveloped country by their government to participate in any of the tax breaks and other things that accrue to these people. But that is not our fault. That is the decision made by the officials of the Irish Government, and they didn't have the courage to tell their own people that they are being characterized or classified as being undeveloped.

Mr. SCHNEEBELI. I might observe that one of the best exports that we can have to some of the developing countries would be family planning information. I am not being facetious, either.

Mr. GRANT. May I say on this, Congressman, that an interesting phenomenon that has come out recently is that in the countries that begin to develop, the best way of reducing birth rates is for a country to begin to modernize. When modernization is associated with family planning, birth rates plummet. Either one alone has a lesser impact.

Very interestingly, in Korea and Taiwan, birth rates have dropped precipitously in the last 10 years.

Mr. SCHNEEBELI. As they become more westernized.

Mr. GRANT. As they become more modern in health, education, and jobs.

Mr. SCHNEEBELI. What is the Overseas Development Council?

Mr. GRANT. The Overseas Development Council is a nonprofit research and public education organization concerned with issues between the United States and developing countries. We are concerned with a public understanding about issues of importance between us and them.

Mr. SCHNEEBELI. By whom are you financed?

Mr. GRANT. We are financed somewhat over half by foundations and the balance by private individuals and corporations.

Mr. SCHNEEBELI. Are you headquartered here?

Mr. GRANT. We are headquartered at 1717 Massachusetts Avenue NW. in Washington, D.C.

Mr. SCHNEEBELI. Are you associated with Brookings?

Mr. GRANT. We are located close to Brookings.

Mr. SCHNEEBELI. As a matter of fact, I think we had another group in here yesterday that was associated to some extent with Brookings. Could we have a list of your members who support your project?

Mr. GRANT. Yes.

Mr. SCHNEEBELI. If you could, for the record, we would appreciate it very much.

Mr. GRANT. Yes, sir.

[The information referred to follows:]

The Overseas Development Council was founded in 1969 to increase American understanding of problems faced by the developing countries, and the importance of these countries to the United States.

The Council tries to meet its objectives by analyzing major issues in U.S.-developing world relations, and then presenting its conclusions to both policy-makers and the general public through publications, seminars and meetings, and liaison with other organizations.

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Mr. William H. Draper, Jr., Honorary Chairman, Population Crisis Committee.
Mrs. Marian Wright Edelman, Director, Washington Research Project.
Thomas L. Farmer, Esquire, Prather, Levenberg, Seegar, Doolittle, Farmer and Ewing.
Dr. Arthur S. Flemming, Chairman, Post Conference Board of the White House Conference on Aging.
Dr. Luther H. Foster, President, Tuskegee Institute.
Mr. William Franklin, Chairman of the Board, Caterpillar Tractor Co.
The Honorable Orville L. Freeman, President, Business International Corp.
Mr. Philip L. Geyelin, Editor of Editorial Page, The Washington Post.
Mr. Stephen Girard, Senior Vice President, Kaiser Industries Corp.
The Honorable Arthur J. Goldberg.
The Honorable Kermit Gordon, President, the Brookings Institution.
Dr. Lester E. Gordon, Development Advisory Service of the Center for International Affairs, Harvard University.
The Honorable Lincoln Gordon, Fellow, Woodrow Wilson, International Center for Scholars.
Mr. Edward K. Hamilton, Deputy Mayor, City of New York.
The Honorable Clifford M. Hardin, Vice Chairman of the Board, Ralston Purina Co.
Dr. George Harrar, The Rockefeller Foundation.
Mr. Samuel P. Hayes, President, Foreign Policy Association.
Mr. Ulric Haynes, Jr., Vice President, Cummins Engine Co.
Mr. William R. Hewlett, President, Hewlett-Packard Co.

Mr. Edward E. Hood, Jr., Vice President and Group Executive, International Group.
Dr. Donald Hornig, President, Brown University.
Mr. Vernon E. Jordon, Executive Director, National Urban League.
Hon. Nicholas de B. Katzenbach, Corporate Vice President and General Counsel, IBM Corp.
Mr. Steven J. Kelman.
Mr. Tom Killefer, Vice President-Finance and General Counsel, Chrysler Corp.
Mr. William C. Kokontis, Director, Young World Development, American Freedom from Hunger Foundation, Inc.
Miss Judith L. Kooker.
Dr. Peter F. Krogh, Dean, School of Foreign Service.
Mr. William J. Lawless, Latin American Area General Manager, IBM World Trade Corp.
Mr. Walter J. Levy, President, Research and Social Service Foundation.
Dr. John P. Lewis, Dean, Woodrow Wilson School of Public and International Affairs.
The Honorable David E. Lilienthal, Chairman of the Board, Development and Resources, Inc.
Mr. Louis E. Martin, Vice President and Editorial Director, Chicago Daily Defender.
Dr. Edward S. Mason, Development Advisory Service, Harvard University.
Mr. C. Peter McColough, President and Chief Executive Officer, Xerox Corp.
Mr. Francis McGuire, Senior Vice President, Overseas Divisions, Deere and Co.
Dr. Malcolm Moos, President, University of Minnesota.
Mr. Thomas A. Murphy, Vice Chairman of the Board, General Motors Corp.
Rev. Randolph Nugent, Associate General Secretary of the National Division of the Board of Global Ministers, Union Methodist Church.
Mr. William S. Ogden, Executive Vice President, The Chase Manhattan Bank.
Mr. F. Taylor Ostrander, Assistant to the Chairman, American Metal Climax, Inc.
Mr. Daniel Parker, Chairman, Parker Pen Co.
Dr. James A. Perkins, Chief Executive Officer and Chairman of the Board, International Council for Educational Development.
Mr. Hart Perry, Executive Vice President, International Telephone & Telegraph Corp.
Mr. Andrew E. Rice, Executive Secretary, Society for International Development.
Mr. Charles W. Robinson, President, Marcona Corp.
Mr. James D. Robinson, III, President, American Express International Banking Corp.
The Honorable David Rockefeller, Chairman of the Board, The Chase Manhattan Bank NA.
The Honorable John A. Schnittker.
Mr. David H. Shepard, President, Cognitronics Corp.
Mr. Joseph E. Slater, President, Aspen Institute for Humanistic Studies.
Mr. Edward B. Smith, Chairman of the Board, Northern Trust Co.
Mr. Davidson Sommers, International Bank for Reconstruction and Development.
Mr. Lauren K. Soth, Editor, Editorial Pages, Des Moines Register and Tribune.
Mr. Stephen Stamas, Vice President for Public Affairs, Exxon Corp.
Mr. John E. Swearingen, Chairman of the Board, Standard Oil Co. of Indiana.
Miss Debra J. Sweet.
Mr. Charles B. Thorton, Chairman of the Board, Litton Industries.
Dr. Raymond Vernon, Director, Center for International Affairs, Harvard University.
Mr. C. M. van Vlierden, Executive Vice President, Bank of America.
Dr. Clifton R. Wharton, Jr., President, Michigan State University.
Mr. J. Harvie Wilkinson, Jr., United Virginia Bankshares.
Mr. Leonard Woodcock, President, United Automobile Workers.
Mr. Barry Zorthian, President, Time-Life Cable Communications.

Mr. SCHNEEBELI. I enjoyed very much your testimony and I thank you for focusing on this important area.

Mr. GRANT. Thank you, sir.

Mr. BURKE. Out of deference to my colleague here, he raised a question of family planning. We could run into hours of discussion on that. I will not raise a question of the Burke-Hartke bill.

Mr. Erb, you speak of the danger of too rigid an application of the rule of origin. What benefit is there for a developing country if there

is just to be a showerproofing of cloth, or some other manipulation, in order that a developed country passes its goods through a developing country to get duty free treatment?

Mr. ERB. I presume that any rule of origin or value added criterion would prevent that sort of abuse. Developing countries themselves have no interest in what the British call "brass plate" industries, that is just a "knocker on the door" operation, which as you say, does not contribute a significant amount to their development. I had in mind rather that the rule might not permit the gradual development of linkages to supplying industries, and an increasing amount of operations within a developing country which would contribute to the eventual value-added of the product, by initially setting standards so high that it would be impossible for the country to begin production.

I certainly agree that it is neither in the developing country's interest or in our interest that a poor country merely act as a channel, as it were, for a paper transaction.

Mr. BURKE. That is one of the problems this committee has been faced with since I have been on the committee. The developing country shipping goods to the underdeveloped country and using a loophole to get their goods in here at much lower rates of tariff, and using the most spurious reasons for doing so.

I think that is the purpose of this rule of origin.

Mr. ERB. Yes. That would correct that sort of operation.

Mr. FRANK. I just want to say, I think it would be good if the Congress would write into the law somehow some guidelines that would state explicitly what the purpose of this is, rather than give unlimited authority.

Mr. BURKE. More than likely that is a good suggestion, and it is something that should be looked into by the committee. Now the present law allows some adjustment assistance for industry. Now that was referred to as a burial allowance, and there is nothing in this bill for business firms that are going to be injured. In fact, the adjustment assistance as it applies to the workers losing their jobs has a time span under the present law of 52 weeks. They have cut it back here in the administration's proposal to 26 weeks. So I made an observation yesterday there seems to be an attempt on the part of some people selling this free trade idea, if they buy it you have nothing to worry about because this adjustment assistance is along the road for you, which I characterize as a cruel hoax and cruel joke imposed on the worker who loses his job. There is very little assistance coming to him under this proposal, or any other amendment that I can see might be adopted.

What I can't understand is with all the people pushing this free trade idea they keep talking about this adjustment assistance and they paint this beautiful picture of what is down the road for the poor fellow who loses his job.

Actually, under this proposal there is no assistance.

Why can't they be honest enough to come out and just don't recommend any assistance, because that is actually what they are doing? Tell the people the facts. You are going to lose your job and there is nothing for you at the end of the road. Why hold out this promise to these people when these plants are being phased out?

I read all the releases up in my area when the shoe factories were closing, and the textile firms were closing, and the electronics jobs

were being lost, all about the adjustment assistance which they are all waiting for, and, of course, it never materializes.

It is bad enough that the poor fellow loses his job. But holding out this hope for them—do you think there is any decency left today? Do you think that we will get some people who are honest enough to tell the people the truth? Do you think we will have arrived at the point that we can tell the people what is in the legislation and what they can look forward to? Do you think that society is so degraded today that these falsehoods are expected to be part of the society and these are the things that we are supposed to count on? Do you think we are in a hopeless situation that we have to accept these lies and frauds that are being committed?

Mr. FRANK. I tried to tell the truth today——

Mr. BURKE. I am not talking about you, sir. I am just talking about the legislation that is before us. I read these editorials viciously criticizing the Burke-Hartke bill, and then coming out with their glowing promises of adjustment assistance, and how the fellow who loses his job is going to get some assistance along the road. Don't you think they would be better off if they told the poor fellow the truth?

Mr. FRANK. Yes.

Mr. BURKE. "Look, if this free trade bill is put through you will lose your job, and there is nothing for you. You might as well get out on the road and thumb your way to another State or some other area where you can get a job, because there is really nothing left for you." Do you think our society has gone so far down that we can't expect the administration people to come in here and give the public the facts on what is in a piece of legislation, rather than holding up this promise to them that there is going to be some help? There is no adjustment assistance in this bill.

Mr. FRANK. That is right.

Mr. BURKE. You can get more under unemployment compensation than you can through adjustment assistance.

Mr. FRANK. In many States that is true.

Mr. BURKE. This is something I can't understand. I am a little puzzled over what is going on in the Government and why these people have to have these highly geared public relations jobs done. The U.S. Chamber of Commerce came in and discussed adjustment assistance. They are professionals, they are not amateurs. Yet here is a highly respected organization that comes in here, and we have all these other free trade advocates that talk about adjustment assistance. There is not going to be any adjustment assistance.

Mr. SCHNEEBELI. If the gentleman will yield, I would like to reiterate that the chamber's recommendations would place adjustment assistance above the State unemployment compensation, generally speaking. So to defend their position, they did recommend assistance at 75 percent of pay.

Mr. BURKE. Yes, but they won't fight too strenuously for them. This is a statement they make here. Then they forget about it as they walk out the door.

Mr. SCHNEEBELI. I am not quite that cynical.

Mr. GRANT. We are grateful that the committee is here and you have the opportunity to add to the bill that is before you.

Mr. BURKE. I am going to try to add to it. I am only one Member out of 435. I am quite limited in what I can do.

Mr. FRANK. I think you would get a lot of support on adjustment.

Mr. BURKE. I think people like yourself should go back and take a real look at this legislation. As I pointed out to our friends who came here from Harvard the other day, sitting in those nice ivy-covered buildings over there——

Mr. SCHNEEBELI. And Princeton.

Mr. BURKE. Yes.

They sit in those ivy-covered buildings—they look over the nice green lawns—they look out over the Charles River where they are rowing and sailing up the Charles, they live a rather cloistered life. They really don't get out with reality. Brookings and the rest of these people, and Princeton, the boys from Princeton and the rest of them, it would be nice if they could get down into the teeming tenement districts of America and talk to the fellow who lost his job. Get down into the nitty-gritty and deal with reality, instead of these beautiful statistics that you people cannot afford to study.

I am not making criticism of your study. I am merely saying it does not go far enough.

Mr. ERB. Mr. Congressman, I was struck by your remarks about the hope that has been held up to American workers, and the fact that so far the hope has not been fulfilled. I would like to say we must not forget that poverty and unemployment in the countries we have been talking about today far exceed those of this country.

Mr. BURKE. They do not exceed unemployment rates of Harlem, New York, or the unemployment rates in some other sections of our country.

Mr. ERB. We have very serious problems. Whereas it is quite true we have major pockets of unemployment, for countries such as India, Brazil, and countries in Africa, rates across the board range between 20 and 40 percent not uncommonly.

The hope that has been held out to these countries over the past 25 years of post-war economic development is that they too will be able to overcome these problems and will be admitted into the world economy as better and fuller participants. So far that hope has often been frustrated, partly through their own underdevelopment, partly through restrictions on trade.

Mr. BURKE. I am for helping all these undeveloped countries, but I am opposed to the type of exploitation of human beings that is going on around the world by some of our very affluent people here in America who work a ten-year old child in Korea and pay him 6 cents an hour. That is not helping to develop Korea. On paying a woman eight cents an hour. And have them work ten hours a day, six days a week. I am against that type of help to an undeveloped country.

I am in favor of raising their living standards in those countries and giving them a chance to live beyond the age of 30 or 35 years, which they do not do today under the working conditions.

Our multinationals, and some of our wealthy people in America, enjoy the tremendous profits they receive as a result of that exploitation. Some of them have working conditions that never existed in this country from the beginning of this nation's history. We have con-

ditions that if you went back 300 years you could not find them as bad.

When you are talking about underdeveloped countries and helping them, I am for that. But these people are not doing that. They are lining their pockets with gold. They are doing what happened here in the Nation just the first quarter of this year when over $10 billion, 200 million of American money went overseas more than we took back here. At that rate we will have an imbalance of payments of over $40 billion this year. It happens to be coincidental that when this happened the price of gold went up to $127. There was also a heavy imbalance of money going overseas during the devaluation of the dollar. These people who invest in overseas plants, some of our multinational corporations, speculated on the value of the dollar, and made a 6½ percent profit on their money in 10 days. The average citizen if he wants to make 6 percent on his money, if he can raise $1,000, he might be able to get 6 percent on his money, if he keeps it in a bank at least 1 year. But they made 6½ percent on their money in 10 days. These are the fat cats I want to get at.

When you are talking about free trade we have to go after those people and make them live up to their social responsibility, which they are not doing today. That is why I hope you bring that message back to Princeton. I hope you will tell them about the 150,000 minority people who lose their jobs in Brooklyn, N.Y., and Harlem, N.Y., as a result of glutting of the market with the importation of footwear, textiles, handbags, umbrellas, and other similar items.

Those people lose their jobs. Then the conservative element of the country charges them with failing to keep up with the work ethic. These are where your problems are. That is why I say it would be nice for Princeton, Harvard, and Yale, and the rest of the Ivy League Schools, and Brookings, and the rest of the people to get out and get down into these teeming tenement districts and talk to the people who lose their jobs and find out why they lose their jobs.

Talk to the people up in Boston like Phil Kramer, the head of the International Ladies Garment Workers, who will tell you about the little plants where people were working in the garment industry who lost their jobs. Over 30,000 people in textiles lost their jobs in Massachusetts since 1956 as a result of our GATT agreements. We don't have a representative of labor on that negotiating team.

The spokesman for the chamber of commerce was trying to create the impression today that business has no representative on it. But business always seems to make out very well.

Now if you would like to make an observation, I would be glad to hear it.

Mr. GRANT. Congressman Burke, we share very strongly your concern over the problems of unemployment created by imports into this country and this is why the essence of our testimony has been that we need really a greatly improved system for coping with this and allowing a transition for people who are hurt by imports. I think it is worth reminding ourselves that for every year in the past ten years we have sold more to developing countries than we have imported from them. On average we have sold about $2.5 billion a year more to these countries than they have sold to us. So it is clear that there are a substantial number of American jobs involved in the export side. We

have doubled our exports to these countries in the last 10 years to the point where our exports to them last year were roughly equivalent to our total exports to the European Community and Japan.

Our exports to the developing countries in the last 2 years have grown more than twice as fast as our exports to the European Community and Japan. So, there is a clear benefit here to us.

Our concern here is that there be a far more adequate provision to take care of these very people that you are concerned about, the electrical workers, the shoe workers. That is why we have come in here with detailed recommendations on how the adjustment assistance provisions and the safeguards can be significantly improved to make it work much better.

Mr. BURKE. You have failed to point out in 1962 when the trade act was written, and I voted for it here in the committee, I listened to all the glib promises that were made, but I am a little more skeptical now because I see what is happening in my district—that year we enjoyed a surplus of trade of $7 billion. Last year, 10 years later, we had a deficit of $6.5 billion. Which means there has been a shift in trade of $13.5 billion annually since 1962.

So, the figures you have sound good from your side of the table, but the figures I give are a little bit more realistic because they deal with the facts that we had a $7 billion surplus in 1962 and we have a $6.5 billion deficit in 1972. With this trend after a while they will have all our money overseas and our industrial complex in this country could be severely damaged. I don't know who will be around here to buy all those goods that are going to come in here through a free market. Somebody has to be working to make the money to buy the goods. You see, the trouble is, the people who are encouraging all these policies, some of them are looking for the quick dollar, quick profit. They are not looking down the road a little farther than they should.

We have had testimony in here that we will have to increase our purchase of imported oil as high as $25 billion more a year. If we have a trade deficit of $6.5 billion that we had last year, plus $25 billion, that means that there will be over $30 billion more going overseas every year than is coming back here.

I don't know whether any one of you are expert enough in economics to predict what will be the financial picture of this country if we sent $30 billion more overseas every year for the next 10 years than we take back here. That will be over $300 billion.

Mr. GRANT. Congressman Burke, we share this concern, and it is a topic that the three of us on this panel have all discussed and considered at some length. It is our conclusion that the only way we can earn this very substantial amount of foreign exchange—our estimates are that by 1980 our imports will be something over $100 billion—is to have an effective world trading system in which the United States can get a better access for agricultural commodities into the markets for Western Europe and Japan, and can get access for our manufactured goods around the world into both the developed and developing countries. But we cannot expect to get much greater access for our goods if we have substantially increased restraints on our side.

This is why we see this Trade Reform Act as being monumentally important. As Dr. Frank said earlier, an opportunity like this comes only once in a decade, and this legislation that is before this commit-

tee today is something that will affect all of us for a good part of the rest of our lives.

We do consider this to be terribly important legislation. This is the real opportunity to build the right system for an open trading system in our judgment.

Mr. BURKE. It does not bother any of you that you are going to give the Executive more power than any President ever had in the history of the country? That is being debated over there in Princeton by the youngsters over there, about President Nixon seizing too many powers.

Mr. FRANK. I think I agree with you. In the bill there are a number of powers which are delegated to the President that are very sweeping. I do think also that some of these powers have to be more precisely pinned down, more circumscribed. I fully agree on that.

On the other hand, I think the basic thrust has to be toward an open world trading system.

Mr. BURKE. This is the last thing you can give the President that he has not taken. Are you in favor of giving him this, it is the last power that he has not seized. How does Princeton stand on that?

Mr. FRANK. Princeton does not have an official view on this.

Mr. BURKE. You are the one from Princeton. Your colleague looks so much like a Princeton man.

Mr. FRANK. I grew up in Pittsburgh. I worked in the steel mills and all those grubby places you are talking about. Maybe it has not rubbed off. I don't look like the Princeton type. There is not a Princeton view at Princeton. The people I know are concerned over this. They are concerned about the presidential powers.

I think you have the power in this committee and the Congress to write a better bill.

Mr. BURKE. I keep reading letters back home from all these young college students. They really make a strong plea against giving the Executive any more power. This is the last vestige of power that I can see. All you people down here are testifying to give it away. I don't see what is wrong coming back to Congress on what they have done and seeking approval or disapproval for what they have done.

Why is it that the Nation does not have the faith in the elected representatives to be an oversight committee on what they do? Like the elimination of the American selling price. They didn't tell us they are going to eliminate it. They are just asking for the power to eliminate it. Of course, one group is under the impression they are not going to eliminate it, and another group that they are.

This Administration is very adept. You know, they speak with a forked tongue. They advocate two different positions at one time, and it is difficult to interpret what they really mean.

We could go on for quite a while, but I am holding the staff here. I just want to thank you for your comments and your statements. I hope that you go back to your people and ask them to get out in the teeming tenement districts and find out what is going on in America.

Thank you.

Mr. GRANT. Thank you, sir.

Mr. BURKE. The committee will adjourn to meet at 10 a.m., Monday morning.

[The following was submitted for the record:]

STATEMENT OF WILLIAM M. ROTH, VICE CHAIRMAN, COMMITTEE FOR ECONOMIC DEVELOPMENT, RESEARCH AND POLICY COMMITTEE FOR INTERNATIONAL ECONOMIC STUDIES

If enacted, the Trade Reform Act of 1973 would be the first major U.S. trade legislation since adoption more than ten years ago of the Trade Expansion Act of 1962. The latter provided the basis for U.S. participation in the far-reaching Kennedy Round of trade negotiations which ended in 1967. How far the international economy has evolved in the last decade can perhaps best be indicated by the fact that in 1962 President Kennedy cited "the need for new markets for Japan" as among the fundamental purposes of the Trade Expansion Act.

THE NEW WORLD CONTEXT

What are the features of the world economic situation today which must be reflected in new trade legislation? In our view, six are fundamental:

(1) The U.S. is no longer the overwhelmingly dominant actor on the world economic scene. The European Community and Japan have emerged as major centers of economic power. A reformed international trading system must be predicated on a set of rules and guidelines which apply equally to all three, and each must share responsibility for making the system work.

(2) Much of the less developed world has been undergoing a major transformation, a central feature of which has been rapid industrialization. For many developing countries the heavy reliance on exports of primary products has been diminishing while their dependence on exports of manufactured goods has been increasing. New trade legislation must reflect this growing need for ready access for their new manufacturing industries to the markets of the United States, Western Europe and Japan.

(3) The end of the cold war with the Soviet Union and the opening up of relations with China hold out the possibility of substantially expanded U.S. trade and other commercial dealings with the Communist world. In order to realize these potentialities, more flexible policies are required than we have had in the past.

(4) With the Kennedy Round reductions, tariffs have receded in importance as obstacles to trade while non-tariff distortions have become more prominent. Despite the diverse forms in which these distortions exist, it is essential to provide a means for eliminating or reducing them on a multilateral basis.

(5) A major reform of the world monetary system is now under way with the primary objective of improving the balance of payments adjustment process through greater reliance on small and frequent changes in parities or on floating rates with rules for intervention. The trade rules that were adopted under the Bretton Woods system and under GATT are being adjusted and a more flexible system is expected to emerge from the present negotiations for international monetary reform.

(6) As modern industrial societies have assumed increasing responsibility for the welfare of their citizens, they have become less willing to allow workers in particular industries to bear disproportionately the costs of market disruption from rapid increases in imports that benefit society as a whole. New trade legislation must establish a multilateral framework for dealing with this reality while preventing safeguards against temporary market disruption from becoming an open door to protectionism.

A new trade bill must be viewed as a way of equipping the United States government with the authority it needs to move toward a more open and fair world trading system that takes into account these six points. Without broad authority for the President, this country would be incapable of exercising the kind of leadership in this that is required. For although Japan and Western Europe are now major centers of economic power, neither has as yet demonstrated the political will required to take the lead in moving the world toward a more open international trading system.

Before commenting on certain specific features of the bill before us, we would like to address two classes of objections currently being made to the kind of initiative represented by the Trade Reform Act of 1973.

JOBS AND TRADE POLICY

One type of objection pertains to the relationship between jobs and trade policy. Proposals have recently been made that would place strict quantitative limits on the flow of competitive imports to the U.S. as a means of preserving jobs for American workers. Those who take this position naturally object to an approach that would equip the President with broad new authority to negotiate reciprocal reductions of trade barriers. In our view this type of opposition is based on a totally erroneous analysis of the relationship of American jobs to foreign trade and investment.

A high level of aggregate employment is a prime goal of U.S. government policy. It should be sought through monetary, fiscal and investment policies and through measures to improve the functioning of labor and other markets. In a dynamic economy, however, it is not possible to maintain a continued high level of employment simultaneously in every industry or sector. It is this objective which is sought when restrictions on foreign trade and investment are urged as a means of maintaining employment.

Shifts in the structure of industry and jobs are essential to progress in a market-oriented economy. They occur, to be sure, in response to foreign competition, but in far greater magnitude in response to domestic forces—for example, technological innovation, shifts in consumer tastes, and changes in national defense and other programs. Preventing the adaptations that respond to changing conditions of cost and demand would tend to lock workers into relatively low-productivity jobs, restrict their standard of living, and retard the growth of the American economy.

The pattern of trade must not, therefore, be frozen. On the contrary, it is in the interests of all Americans, including workers, for the United States to launch a major new negotiation with other countries for the reciprocal reduction of remaining barriers and distortions to international trade.

There are new advantages to the United States from this coure of action. Whereas U.S. investment abroad was a major element in the 1960's, changes in exchange rates and rates of inflation promise to make the U.S. increasingly attractive as a place to invest in the late 70's and 80's. To realize this potential the channels of trade and investment must be kept open.

BALANCE OF PAYMENTS AND TRADE POLICY

A second type of objection to broad new authority to liberalize trade is that the present is not a propitious time to reduce U.S. import restrictions because of the large deficit in our balance of trade. A more sophisticated version of this line of opposition is that even though import restrictions would be reduced on a reciprocal basis so that the U.S. would gain equivalent new opportunities to export, the balance of payments effect might nevertheless be adverse. The alleged reason is that the structure of U.S. trade is such that our imports are more price sensitive than our exports.

We would not wish to enter into the technicalities of the debate about the differences in the price elasticities of demand for U.S. imports and exports. Regardless of those differences, the objections to trade liberalization on the grounds of its likely balance of payments effects are in our view misguided. The central purpose of international trade policy should be to secure a more economic use of the world's resources through a more efficient pattern of international specialization. It is not the purpose of trade policy to carry the burden of achieving balance of payments equilibrium. Reliance for this purpose must be on other instruments, of which exchange rate policy is, of course, paramount. We are only beginning to obtain the advantages of adjustments already made. We have reason to expect that one of the principal results of the current negotiations for international monetary reform will be an improved balance of payments adjustment mechanism including substantially greater exchange rate flexibility than in the past. We do not have to have in the future the only currency which cannot be adjusted.

With the prospect of greater reliance on exchange rate changes, the case for a multilateral approach to reducing trade restrictions, especially non-tariff barriers, is enhanced. The reason is that exchange rate changes can be effective as a balance of payments adjustment mechanism only insofar as their differential price effects are permitted to affect the actual flow of goods and services among countries. To the extent that a country's exports are confronted abroad with

quantitative restrictions, for example, the intended effects of an exchange rate adjustment are frustrated. We must recognize therefore that international trade and monetary policy are intimately linked, and that a well-functioning international monetary system depends on a world trading system that permits changes in countries' relative prices and costs to have their effect on the international flow of goods and services.

We turn briefly now to five specific features of the Trade Reform Act of 1973.

BASIC NEGOTIATING AUTHORITY

We welcome the broad authority in Title I for the President to negotiate for the reduction or elimination of both tariffs and non-tariff distortions to trade. We find less welcome the unlimited authority to *raise* tariffs in the context of new trade agreements.

It is our understanding that one reason for the inclusion of authority to increase duties is to provide flexibility for the conversion into tariffs of such non-tariff restrictions as quotas. Conversion to tariffs would make it easier to schedule reductions over a period of time and to match and balance concessions made by each country. Would it not be preferable, however, to limit the authority to raise tariffs in new trade negotiations to cases of such conversion of non-tariff restrictions? This would not affect the authority of the President to raise duties under other titles of the Act including those concerned with relief from import competition, responses to unfair competition, and measures to deal with the balance of payments.

Another reason that has been advanced for the authority to raise duties under Title I is to make it possible to harmonize tariffs by raising or lowering duties in order to reduce disparities in rates on particular products. However, if harmonization of tariff rates on particular products is to be sought, we would prefer to see it take place by the reduction of high tariffs rather than through a process whereby some countries raise tariffs. It would be unfortunate if one of the consequences of harmonization were to subject some imports into the U.S. and other countries to greater restrictions than before the negotiation.

We welcome particularly the broad authority to negotiate with respect to non-tariff distortions, including the formula for Congressional approval of changes requiring implementing legislation. Still fresh in the minds of many Europeans is the failure of the Executive to obtain Congressional approval of the elimination of the American Selling Price method of valuation which was negotiated in the Kennedy Round. The new procedure under which agreements may be carried out if neither House by majority vote disapproves within ninety days appears to us as a wise compromise between the need of our negotiators for clear authority and the need to preserve congressional prerogatives where changes in existing legislation are concerned.

Although the President did not request specific negotiating authority relating to agricultural trade, one of the major objectives of the forthcoming negotiations is to provide for the expansion of such trade. We wish to underline the importance of trade in farm products which may well require a different approach from that applicable to industrial products. As staated by CED in a recent study of the European Community, "We recommend as a major and imperative subject for multilateral negotiation new guidelines for the international rationalization of agricultural trade, production, and income policies. The objectives of such negotiations must be not only to constrain trade-distorting policies, but also to align the domestic support policies of the major producing and trading countries. This would require commitments by some governments to lower general price supports while substituting income supports for disadvantaged farmers; to moderate production in those cases where other aids to farmers provide a significant artificial incentive to expand production; and to limit or terminate export subsidies."

IMPORT RELIEF

We welcome the liberalized standards of eligibility for temporary relief from injurious import competition: the deletion of the causal connection between injury and a previous traiff concession; and the substitution of "primary" for "major" in defining the required relationship between increased imports and injury.

Under the proposed legislation, however, a finding by the Tariff Commission of both injury to a domestic industry and "market disruption" would be *prima facie* evidence that increased imports have been the primary cause of injury.

Evidence of injury would include such conditions as significant unemployment, low profits, and excess capacity. "Market disruption" would exist when imports are substantial, are rising both absolutely and as a percentage of total domestic consumption, and are offered at prices substantially below those of competing domestic industries.

Frankly, we are concerned that the loose standards for determining "market disruption" combined with its serving as a *prima facie* causal link between injury and imports could result in a proliferation of restrictive measures. We therefore favor elimination of the *prima facie* clause so that, even in cases of market disruption, an industry claiming injury would be required to bear the burden of proof that increased imports have been the primary cause of its problem.

While the forms of import relief are expanded under the Act to include orderly marketing agreements as well as tariffs or quotas, import relief is strictly limited in time and must be phased out beginning after the third year. We welcome these provisions for phasing out and terminating import relief. In addition, a multilarteal effort should be made to negotiate agreed criteria for import relief measures as well as multilateral procedures for their supervision and control.

As for adjustment assistance for workers, we favor the liberalized eligibility criteria as well as the speeding up of both the adjudicative process and the delivery of benefits. In administering the Act, we would hope that special emphasis would be placed on measures to expand productivity and employment—such as job training, reduced discrimination, improved means of continuing health and retirement benefits when a worker moves, better job information, and adequate transportation to increase mobility. Such measures serve to benefit labor while raising the total output of the economy. In this connection we also welcome the separate legislation proposed by the Administration concerning the protection of workers' pension rights and the establishment of uniform unemployment compensation. There should be added federalization of the employment exchanges so that a job anywhere in the U.S. could become available to an unemployed worker.

BALANCE-OF-PAYMENTS AUTHORITY

The Act authorizes temporary import surcharges or other across-the-board import limitations to deal with a serious balance of payments decific. Such temporary restrictions could, moreover, be applied either generally to all countries or selectively only to certain surplus countries as well.

CED formerly favored the use of temporary import surcharges as a second-best measure to deal with balance of payments disequilibrium at a time when it seemed impossible for the U.S. to devalue the dollar on its own initiative. Now, in the light of recent exchange rate experience and the pending international monetary reform, it is doubtful that a case can still be made for the use of this particular measure. In any case, we would prefer to see resort to import surcharges for balance-of-payments purposes made contingent on internationally agreed rules and sanctions.

We also would like to see deleted the provision in the Act which would authorize the use of quantitative restrictions for balance-of-payments purposes, and believe the U.S. should take the initiative to bring about the elimination of the GATT rule that would sanction such measures.

MOST-FAVORED-NATION TREATMENT FOR COMMUNIST COUNTRIES

The provisions of Title V of the Act pertaining to the treatment of imports from Communist countries accord closely with proposals made by CED in a policy statement issued last September entitled "A New Trade Policy for Communist Countries."

In our view, the differentially high U.S. tariffs on imports from Communist countries have substantially reduced Eastern markets for American goods, since over the long run the Communist countries buy only to the extent that they sell and these tariffs reduce the attractiveness of the U.S. market. If U.S. trade with the Communist countries is to increase on a scale comparable to trade with the East of some other major Western countries, our discriminatorily high tariff rates must come to an end.

At the same time, however, it has been our position that most-favored-nation treatment should not be accorded to the Communist countries unilaterally. It should be granted only in return for benefits equivalent to those that are assured

from other countries by application of the GATT rules of fair competition and nondiscrimination.

The Trade Reform Act would grant the President authority to extend most-favored-nation treatment to Communist countries through bilateral commercial agreements or through multilateral trade agreements to which the U.S. is a party. Viewed in the light of the reciprocal benefits provided in the trade agreement signed with the Soviet Union in October 1972, we support the grant of authority to the President contained in Title V.

PREFERENCES

CED recognizes the contribution that preferences can make to the economic development of low-income countries by stimulating their exports to the industrial countries. As we explained in a 1967 policy statement, "Trade Policy Toward Low-Income Countries";

"The basic case for generalized preferences rests on an extension into the export sphere of the infant industry argument for protection in the home market. It is claimed that if producers in low-income countries are to compete in high-income markets with established exporters from other high-income countries, the low-income producers need some special advantage to offset the initial costs of penetrating these new markets. Unlike protection in the domestic market, which often insulates the domestic producer completely from foreign competition, generalized preferences for low-income countries would exposee producers in those countries to competition on at least equal terms with domestic producers in the high-income countries and with exporters of other low-income countries. These competitive pressures should promote efficiency in manufacturing for export and should tend to orient government policy with respect to manufacturing industry from narrow import substitution toward competitive export promotion."

Nevertheless, we have not been among the proponents of temporary preferences—partly because of our belief that the more important contribution toward more liberal market access for the LCDs lies in the more durable benefits of a general negotiation for the reduction or elimination of both tariff and non-tariff barriers combined with multilaterally agreed standards and procedures for safeguards against market disruption. We have also been concerned about the complexity of tariff preference schemes which establish quotas for imports of each product from all LDCs beyond which no preference is allowed, as well as cut-off points within the quota that would limit preferential imports from particular developing countries.

Unlike the European Community scheme of general preferences, the U.S. proposal would not establish quantitative limits for the total volume of preferential imports of a particular commodity that may enter from all LDCs. Such imports would, however, be subject to the liberalized general safeguard provisions included in the Act. Also, the "competitive need" test applied to individual developing countries strikes us as sensible and relatively easy to supply.

Both Presidents Johnson and Nixon have committed themselves to supporting temporary preferences for the manufactured exports of LDCs. The current proposal would fulfill this commitment on a reasonable basis. But the developing countries should recognize that they have an even greater stake in successful general negotiations that would deal with non-tariff distortions as well as tariffs and with agricultural as well as industrial trade. Establishing the legislative basis for such broad negotiations is the principal rationale of the Trade Reform Act of 1973.

Statement of the Atlantic Council of the United States

ATLANTIC COUNCIL REACTION TO PRESIDENT NIXON'S TRADE PROGRAM

The Directors of the Atlantic Council of the United States welcome the initiative of President Nixon and Congress toward Trade Reform in 1973. They welcome the President's note of urgency. They welcome the spirit of his call for an effective working partnership between the Executive and Legislative Branches. Thy welcome his desire to negotiate a more open and equitable international economic system adequate to carry forward the momentum of economic growth of the post-war years and at the same time to adapt it to the important changes which have taken place. The President's proposals are broadly in accord

with the conclusions of the Trade Committee of the Atlantic Council which were made public on February 14. A copy of that statement is enclosed.

The Atlantic Council fully shares the view expressed by Dr. Kissinger on April 23 that the forthcoming negotiations represent "an historic opportunity for positive achievement" and that they require the attention of top political leaders and above all a commitment of political will.

The importance of the trade program lies not alone in the need to stimulate trade but also in the fact that new trade understandings are a key element in the development of closer political cooperation between the industrial nations of the free world. Closer cooperation with our friends and allies to discharge our responsibilities for security and to utilize our opportunities to advance our individual and common interests can not be achieved if trade or monetary questions are approached in a spirit of confrontation.

Domestically, this country has for several years been facing a complex of serious problems including a badly deteriorated balance of international payments, a dangerous price inflation, continued excessive unemployment, monetary instability, and an atmosphere of uncertainty in the face of these complications. Our principal trading partners also face economic problems, some similar to ours, other markedly different, but all requiring solution in a cooperative framework.

These problems call for a more effective and integrated cooperative management of the international economic order. They require long-term solutions through a process of negotiation, consultation, and harmonization of policy. What is needed is an open community dedicated to a systematic and orderly development of dynamic international economic policies.

We have numerous multinational organizations dealing with aspects of these problems, notably the International Monetary Fund, the OECD and the GATT. They need strengthening and more effective linkage between their operations. Above all the need is for political will on the part of the member nations to utilize them effectively for the common good.

Negotiations for reform of the international monetary system are underway in the Group of 20. Recent developments have shown the urgency of rapid progress. Comparable negotiations for a more open and equitable world trading system will begin later this year. To achieve any real progress the United States negotiators must have adequate negotiating authority. The trade negotiations are one, only one but an essential one, of a series of steps which urgently need to be taken together for the well-being of the people of the United States.

While encouraging the Congress to give early and full consideration to these problems the Atlantic Council recognizes also the responsibility of citizens to communicate their considered views to the Administration and the Congress. It is a matter of regrettable record that with problems of this sort the pressure usually comes from special interests rather than from broad recognition of the long-term public interest. The Atlantic Council, therefore, urges intensive public discussion of the issues leading to prompt and effective action.

Citizen responsibility includes the advocacy and support of domestic policies which provide a firm basis for the country's effective joint action with others. Especially necessary is prompt and firm action by the Executive and Legislative Branches to bring the country's fiscal and monetary affairs under control and check further serious inflationary trends.

Despite the rapid economic growth of Europe and Japan, the important place of the United States in the world's economic and monetary system continues to require vigorous and far-sighted US leadership. The extent to which others will be prepared to respond to that leadership will be greatly influenced by the extent to which our management of our internal affairs demonstrates our capacity to lead.

In the forthcoming negotiations the important thing is for the United States and its principal trading partners to attack their common problems in a spirit of friendship rather than confrontation and in the realization that their common interest in solving these problems and wider ones, far outweighs any parochial interests. The need is for far-sighted recognition of what those common interests are and a determined cooperative effort, both realistic and creative, to advance them.

Statement on International Trade Policy Issued by the Trade Committee of the Atlantic Council of the United States

MEMBERS OF THE TRADE COMMITTEE

Chairman: Hon. Lawrence C. McQuade
Rapporteur: Hon. Jacques J. Reinstein

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Mrs. Lucy Wilson Benson
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Hon. Alexander Trowbridge
Mr. Richard J. Wallace
Mr. George C. Wells

The Committee believes that the Administration and the Congress must give urgent attention to stimulating an increase in international trade for the benefit of business, labor, agriculture and the consumer. Improvements in world economic mechanisms, both in the monetary and trading systems, are necessary to enable us to attain this objective. Monetary reforms are already under discussion. The time has come to get trade reform underway as well.

The first urgent need is for vigorous Administration leadership in seeking authority from the Congress broad enough and bold enough to convince our principal trading partners that the U.S. is determined to seek, and has the necessary authority to negotiate for, a thorough-going reform of the international trading system parallel with reform of the international monetary system.

* * * * * * *

The negotiations will have to break new ground internationally, both as to substance and procedure. New legislation should therefore be broad enough to enable the Executive to negotiate effectively regarding the full range of subjects in which U.S. trade interests are involved. It should set forth the policies and principles of American foreign policy respecting international trade, to provide guidelines to the Executive and to make our outlook clear to our trading partners. The legislation should provide the Executive with the authority to act when the objective can be readily defined. It should provide negotiating authority subject to Congressional review in other cases.

The policy objectives to be sought should include the progressive elimination of barriers to international trade and of policies and practices which distort trade channels. They should aim at the establishment of conditions which will permit fair trade on a non-discriminatory multilateral basis. The creation of such conditions is in the general interest. It is also in the U.S. interest and should be clearly enunciated anew by the Congress as American policy.

The United States needs fair access to foreign markets to sustain our industrial employment and agricultural production. We need fair rules on competition in the market place. We can obtain fair access to other markets only by granting fair access to our own. The American economy is strong. Assuming that we keep it strong through sound domestic policies, the United States can compete in a fair trade system for the markets it needs to pay for its requirements for goods and services from other countries, provided that the international monetary negotiations result in the creation of an efficient and equitable process by which adjustments can be made through flexibility in exchange rates and other complementary measures.

Within the framework of the policies laid down by the Congress, the Committee believes that new trade legislation should cover the following subjects:

Tariffs

Specific advance authority should be delegated to the President to enter into multilateral agreements for the reciprocal elimination of tariffs among the industrialized countries on a most-favored-nation basis over a specified time period of perhaps ten years, in accordance with a plan for progressive annual reductions. The elimination of tariffs would be subject to suitable safeguards for labor and industry referred to below.

Non-tariff barriers

As tariff barriers have been progressively reduced and as the trading nations move toward greater economic interdependence, non-tariff barriers and their trade-distorting effects have become increasingly important. A new, vigorous attack on these barriers is needed.

The objective in dealing with non-tariff barriers would be, depending on their character, to reduce or eliminate them or to correct their trade-distorting effects and to get rid of discrimination.

Some non-tariff barriers bear exclusively on imports and may lend themselves to negotiations similar to those which have been used regarding tariffs. Other non-tariff barriers are enmeshed in domestic legislation and require different approaches. There is danger, for example, that industrial, health or safety regulations can inadvertently or deliberately create trade barriers. The domestic goals concerned should be sought by measures which, as far as possible, avoid hampering trade. Dealing with these problems will inevitably be a long-term continuing process.

This process may well include negotiating:

A. Principles of fair trade.

B. Codes of conduct for governments, with provisions for making them effective through penalties or compensatory benefits in case of violation.

C. Agreements against discrimination.

D. Liberalization and simplification of procedures and practices directly relating to international trade.

E. Harmonization of other policies, procedures and practices which substantially affect international trade.

Adequate international machinery will be needed for review of governmental action regarding these matters, for dealing with complaints of violation, and for continuing consultation and negotiation, a matter which is discussed further below.

The Congress should give the President adequate authority, and clear cut assurance of support in principle, for conducting such negotiations.

Agriculture

There are unique aspects to the problems of agriculture and dealing with them is complicated by domestic legislation and political sensitivities in many countries. It is essential nevertheless that international trade in agriculure be dealt with as an integral part of the reform of world trade system proposed above, particularly as regards non-tariff barriers, which are of great significance in this area. The Kennedy Round of negotiations was able to accomplish very little in this area, which is of particular importance to the United States in view of the efficiency of our agriculture and its role in our export trade.

Agreements should be sought which would contribute to rationalization of world agriculture and result in a substantial expansion of agricultural trade. Since our own domestic legislation is involved, a clear expression of Congressional intent in this area would facilitate effective negotiations by the Executive.

Another Atlantic Council committee is preparing more specific proposals on the subject of international trade in agriculture.

Adjustment assistance

The Congress should review and liberalize the legislative provisions for adjustment assistance to labor and industry affected by changes in international trade patterns. There seems to be widespread agreement that present programs have not been effective. More attention and support should be given to job-retraining, with improved Federal and local cooperation. Assistance should also be extended in appropriate cases to communities which are heavily dependent on affected industries.

Safeguards

In order to bring about the desired changes, it may be necessary to provide safeguards for reducing the impact of changes on a few industries which are highly sensitive to altered conditions, by affording temporary, transitional relief from an excessive volume of imports which results in market disruption. Such measures, whether taken by the United States or other countries, should however be strictly limited in time and be subject to international consultation and review.

Trade with countries with centrally planned economies

The provisions of existing law bearing on trade with the USSR, Mainland China and other countries with centrally placed economies should be reviewed to determine whether they are adequate to enable the Executive to deal effectively with the governments of those countries, both as regards exports and imports, in the interest of increasing our trade with them.

Trade with developing countries

The progressive dismantling of barriers to trade among the more industrially advanced countries is not likely to be swift enough to meet the urgent trade problems of the developing countries. Legislative provision should be made for U.S. implementation of internationally agreed arrangements, already implemented by Europe and Japan, for a system of generalized tariff preferences for these countries under conditions which are fair as between the advanced countries.

International machinery

One difficult problem which will have to be solved in the negotiations, but which it may not be possible to treat in the initial legislation, relates to the international machinery for dealing with trade questions. While the General Agreement on Tariffs and Trade (GATT) has performed an essential role, consideration needs to be given to the adequacy of its procedures and mandate, which go back to the early post-war period, and to providing for a closer and more effective relationship between GATT and the International Monetary Fund. Consideration will also need to be given to the development in a new era of economic cooperation of the role to be played by the OECD in coordinating the economic policies of its member countries.

Required legislation

Legislation dealing with these problems would fall into various categories. For example, provisions for adjustment assistance should become effective immediately upon enactment of the legislation. Beyond this, two types of authority will be necessary:

One, dealing with tariffs, including safeguards, and some non-tariff barriers, should constitute specific authority. The other, dealing with non-tariff barriers and agriculture, should be in the form of Congressional guidance. Results achieved in acordance with this guidance should be subject to Congressional review. In the interest of obtaining action, agreements concluded under this authority should be submitted to the Congress and take effect unless disapproved by the Congress within sixty days of the date of submission. Major progress may not be achieved in a single, one-time negotiation, but rather by a process of continuing negotiations and consultation over what may be a very long period of time.

The foregoing comments relate to the subject of trade legislation. Such legislation, however, will not be able to deal with the totality of the U.S. international trade problem. The competitive position of the American producer, at home and abroad, is affected by domestic policy and legislation in various fields. Most important, of course, are the government's general economic policies and particularly the measures taken to restrain inflation and promote economic growth through budget and fiscal policy. It is particularly important at this time to place those ceilings, both executive and legislative, on outlays and appropriations which will avoid the threat of renewed demand-pull inflation as we increasingly employ the unused resources of manpower and capacity now available in the economy.

Tax policies, anti-trust policies, energy policies and environmental policies provide examples of specific domestic measures which may have a significant effect on foreign trade. Domestic policies and legislation, and the regulations deriving from them, which have such an effect should be reviewed in the light of

changing conditions in international trade. The Committee makes no *a priori* judgment regarding them. However, where they are found to require adaptation, the Committee suggests that the desirability of an international approach, of seeking international rules or harmonization through international agreement, should be kept constantly in mind.

In making its recommendations, the Committee calls attention to the large current and prospective deficit in the U.S. trade balance, which reached a total of more than six billion dollars in 1972. This deficit reflects changes which have taken place in the international economic situation and distortions and rigidities which have developed in the structure of international economic relations, preventing effective adjustment to changing world economic circumstances.

The Committee has also given attention to the continuing unduly high level of unemployment. A primary interest of labor, and indeed of the whole American economy, is the safeguarding and creation of jobs and resultant purchasing power. With respect to international trade, the Committee firmly believes that the best means of increasing employment lies in increasing efficiency of American production and through expanding exports, i.e., in the reduction of foreign barriers to trade and the re-enforcement of the competitiveness of American industry. It also believes that efforts to protect jobs through restrictive trade controls would be self-defeating by weakening competitiveness and inviting reprisal against our export trade and would operate to reduce standards of living.

The Committee has only dealt in its recommendations with actions to be taken by government. These can at best create a favorable climate for action by individual enterprises. In the final analysis, provided that the climate is favorable, it is the response of management and labor to the challenges which our problems and opportunities present which will determine the success of the American effort.

In conclusion, the Committee wishes to stress three points:

1. Action is needed urgently.
2. Only a bold, forward-looking approach can meet the present and future needs of the American economy and of American foreign policy.
3. Trade legislation should be looked on and dealt with as an integral part of our over-all efforts to achieve a peaceful and increasingly prosperous world.

STATEMENT OF THE AMERICAN BANKERS ASSOCIATION

SUMMARY

The American Bankers Association believes it is in the best interest of the United States and all nations to adopt policies that promote freer and greater international trade.

The American Bankers Association opposes passage of the Burke-Hartke bill or similar type legislation because it would undermine the growth of foreign trade and investment, threaten domestic and international economic prosperity, and impair multilateral cooperation essential to ensuring fairer trading rules for the United States.

The American Bankers Association supports generally the broad negotiating authorities sought by the President in H.R. 6767 as necessary to achieving comprehensive and meaningful trade and monetary reforms in the negotiations scheduled to begin in the fall of 1973.

The American Bankers Association strongly opposes changes in the taxation of foreign source income, such as the changes proposed by the Burke-Hartke bill and the changes recently proposed by the Treasury Department. We urge the continuation of the existing tax provisions of the Internal Revenue Code relating to foreign source income.

WORLD TRADE AND H.R. 6767

The American Bankers Association appreciates this opportunity to submit the following comments on H.R. 6767, the Trade Reform Act of 1973, and the supplementary tax recommendations concerning the treatment of foreign source income, currently under the consideration of your Committee.

The American banking industry has a growing interest in international trade, investment and related banking activities. With the rapid growth of world trade and investment, especially over the last 10 to 12 years, has come a corresponding growth in the international operations and activities of U.S. banks. Today there

are almost 600 overseas U.S. bank branches, representative offices, subsidiaries, or foreign affiliates participating in an estimated billion dollars worth of trade related foreign exchange transactions taking place every day around the world. Clearly, U.S. commercial banks have more than a passing interest in international trade, investment and related banking activities.

In recognition of these developments The American Bankers Association is pleased to submit the following statement on the broad purposes of the foreign trade and tax related proposals before this Committee.

The American Bankers Association believes it is in the interest of the United States to stimulate freer and greater world trade. Trade benefits all countries. Trade benefits people whether they be farmers, workers, businessmen or consumers. The progressive freeing-up and growth of world trade over the past 25 years has produced impressive results and is responsible in large part for the rising standards of living here at home and among our major trading partners abroad. Freer, greater trade is also an essential element in fulfilling the aspirations of the less developed nations for accelerated economic growth and a higher material standard of living. Thus, we believe the best interests of the United States and all nations are served by pursuing policies that will reduce trade barriers at home and abroad and thereby promote freer, greater foreign trade.

The American Bankers Association further believes that, if conditions are not provided for encouraging an expansion of trade for the benefit of nations generally, countries may revert to protectionist policies that could lead to serious trade conflicts and jeopardize progress already achieved. Within the United States widespread support for protectionism is reflected in the Burke-Hartke bill which is also before your Committee. The American Bankers Association continues to oppose this bill. In our judgment passage of Burke-Hartke or similar type legislation would seriously undermine the continued expansion of foreign trade and investment, threatening in turn the standards of living of people throughout the world. Passage of such legislation would also impair international cooperation increasingly essential to securing fairer trading arrangements for the United States in upcoming negotiations.

Failure to adopt measures that promote international trade will also jeopardize monetary reform. Major reform of both trading and monetary systems is necessary not only to expand trade but also to achieve a fairer trading environment for the United States. In our judgment monetary reforms will not receive serious consideration until Congress enacts favorable trade legislation. Therefore, we urge Congress to act expeditiously and enact such legislation prior to the opening of important monetary and trade negotiations scheduled to take place later this year.

On balance we believe the Trade Reform Act of 1973 represents a reasonable and flexible approach to achieve meaningful and favorable trade reforms. We support the broad purposes of H.R. 6767 and urge passage of this or similar legislation. Our comments with respect to H.R. 6767 are confined to what we feel are the key and probably most controversial aspects of the Act, namely, the broad negotiating authorities requested by the President.

The Act grants the President authority to raise, lower, or eliminate American tariffs pursuant to trade agreements; to negotiate reciprocal non-tariff barrier (NTB) reductions with procedures requiring Congressional participation and decision-making; and to raise or lower import restrictions on a temporary basis to help correct deficits or surpluses in our balance of payments position.

In general, we believe these Presidential negotiating authorities are necessary because of the fundamental change that has occurred with respect to the international economic posture of the United States in the world today. That foundamental change is, of course, that the United States no longer holds a dominant position in international economic relations. Japan and Europe are now coequals, clearly ahead of us in some areas of competition and rapidly pulling even in other areas. At the same time the ground rules governing trade have not changed to reflect this new development. During the years of American dominance, some justification existed for foreign trade barriers that discriminated against the United States. But, under present circumstances, that is no longer true.

Consequently, the United States has much at stake in upcoming trade negotiations. To help secure fairer rules of competition for U.S. goods and products, the United States must be equipped to enter the negotiations at least on terms of equality with our competitors. In our judgment broad negotiating authorities along the general lines recommended in H.R. 6767 will permit the President and his advisors to negotiate successfully on behalf of the American people.

At the same time general support of these authorities does not mean that we believe the President should be granted unlimited power. We share the

concern of members of this Committee and Congress who question whether passage of these provisions of the bill as written could amount to an unlimited delegation of power to the President. However, we believe reasonable limitations can be set without undermining the negotiating authority and posture of this country at the bargaining table. Although we are not experts and cannot offer the Committee specific proposals along these lines, we do suggest as a general criterion that the authority granted be broad enough to convince our trading partners that this nation is prepared and has empowered the President with sufficient authority to conduct major trade reforms. Moreover, we are confident that by working together this Committee, the Congress and the Administration can shape a bill that will grant the President sufficient negotiating leeway and still permit reasonable Congressional oversight of those powers.

TAXATION OF FOREIGN SOURCE INCOME

The American Bankers Association, in its testimony before this Committee on March 5, 1973, strongly opposed changes in the taxation of foreign source income as proposed by the Burke-Hartke bill. Since that time, on April 30, 1973, the Treasury Department announced proposals for changes in the taxation of foreign source income.

The Treasury Department's foreign income tax proposals would inhibit, or even preclude, an effective competitive position for U.S. businesses operating abroad. Such legislation would be counterproductive in the long run and would ultimately have a decidedly negative impact upon the U.S. balance of payments.

Since 1960, foreign investments of American industry have contributed more than $66 billion to the balance of payments. Today, remitted earnings are the single most important positive contribution to the balance of payments. Moreover, one-fourth of all U.S. exports and over one-third of all manufactured exports are between U.S. parent companies and their foreign branches. If the Burke-Hartke bill were enacted, it could be expected that U.S. exports would decline along with foreign investments.

We are disturbed that all the proposals made to date undertake to solve current trade problems through negative restraints and penalties on American business operations abroad. The objective of tax legislation in the foreign trade area should be to aid and encourage U.S. industries operating abroad, rather than to impose onerous and detrimental burdens on such industries.

We urge the continuation of the present provisions of the Internal Revenue Code dealing with the taxation of foreign source income. These provisions are not the cause of this nation's trade deficit and overall balance of payments problem.

On balance, we believe U.S. investments abroad have been highly beneficial to the American people and the growth and prosperity of the national economy. Numerous government, academic and industry studies clearly show that this investment has strengthened the U.S. balance of trade, the overall balance of payments and has produced more jobs for the U.S. economy.[1] At the same time, there is no reason to assume that discouraging foreign investment will promote production and prosperity at home. Thus, we believe foreign policies should not be altered so as to penalize or prohibit investments abroad which, on the whole, have been very beneficial to the United States.

STATEMENT OF U.S. CATHOLIC CONFERENCE

SUMMARY OF THE USCC STATEMENT ON TRADE REFORM

Even a cursory look at today's world reveals that it is economically out of balance. Not only are these rich people and poor people in the United States, but on a global scale there is a vast, ever-widening gap between people in the industrialized nations and people in Third World nations.

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[1] Emergency Committee for American Trade, *The Role of the Multinational Corporation in the United States and World Economies*, p. 23. Chamber of Commerce of the U.S., *U.S. Multinational Enterprise*, (Washington: Chamber of Commerce of the U.S., 1972) pp. 31–36. Department of Commerce. *U.S. Multinational Enterprises and the U.S. Economy*, (Washington: Department of Commerce. 1972), p. 31. National Foreign Trade Council, Inc., *Economic Implications of Proposed Changes in the Taxation of U.S. Investment Abroad*, June 1972. Report to the Committee on Finance of the United States Senate and its Subcommittee on International Trade prepared by the U.S. Tariff Commission. *Implications of Multinational Firms for World Trade and Investment and for U.S. Trade and Labor*, February 1973, pp. 3–8.

We are at a moment in history when the development of economic life could diminish social inequalities if that development were guided and coordinated in a reasonable and human way. Efforts to solve this urgent, critical problem cannot be postponed indefinitely, for the contrast between the economically more advanced countries and other countries is becoming more serious day by day, and the very peace of the world can thereby be jeopardized.

The most significant fact for us to face as citizens of the United States is that poor nations are systematically made poor and increasingly vulnerable to a new form of colonialism. To foster the liberation of Third World countries from economic injustice is a humanitarian goal, closely linked to the message of the Christian Gospel, which transcends national boundaries and men of Christian faith.

The call for justice by Christian churchmen is not a novelty among so-called Christian social activists. St Ambrose of Milan, a fourth century bishop, said: "You are not making a gift of your possessions to the poor person. You are handing over to him what is his. For what has been given in common for the use of all, you have arrogated to yourself. The world is given to all, not only the rich."

The purpose of this testimony is to concentrate on two elements of the foreign trade issue currently before the 93rd Congress: (1) regulations of American overseas investments, and (2) restriction of imports into this country.

1. Private overseas investments

Roman Catholic Christianity has consistently refused to canonize the "free enterprise" system of western capitalism and its companion rule of free trade. Underlying this refusal is the church's espousal that the right of private property is not absolute, but rather must be balanced against the needs of the society as a whole.

In 1967, Paul VI condemned the double standard of those multinational corporaions (MNC's) which show a degree of social sensitivity in rich countries but apply only rugged and inhuman individualism in poor countries. The Pope felt that their "advantaged situation should move them to become initiators of social progress and of human advancement in the area where business calls them." By 1971, the Pope described the MNC's as "new economic forces which by the concentration and flexibility of their means can conduct autonomous strategies which are largely independent of the national political powers and therefore not subject to control from the point of view of the common good."

Congressional power therefore is necessary to regulate overseas operations of U.S.-owned MNC's and would be a logical extension of the power to regulate corporations operation within the United States.

Three control mechanisms are recommended by the situation: (a) cancelling government subsidies to MNC's in favor of a special tax for the economic and human development of Third World countries, (b) imposing penalties for intervention by MNC's in the political and economic affairs of Third World nations, and (c) legislating limits to profit-taking in the Third World.

2. Restrictions of imports

In any discussion of restricting U.S. imports it is crucial that consideration be given to both the effect on poor nations' trade potential and the impact on the American job market.

To pit the American working class, many of whom are jobless or underemployed, against the poor of the Third World violates the principles of social justice. It is therefore necessary to make critical distinctions in considering such trade proposals under the heading of two legitimate and interrelated concerns: (a) open access of American markets to poor nations, and (b) adequate safeguards for American workers.

Global justice demands generalized preferences for Third World countries to enable them to counteract in some measure the innumerable handicaps and economic disadvantages they now experience in trying to gain access to the "open" markets of the rich.

We therefore repeat the plea we made in 1972 for fairer prices for raw materials, and we urge that preferential treatment for their exported manufactured goods must be given to growing nations.

It is critical, in all of this, that the poor of the Third World are not made the "enemy" of the American worker. Both groups, in fact, are often victims of economic injustice. Hence, the energy focused on establishing restrictive trade barriers might better be focused on overcoming the frequent indifference of large sectors of our society and of our government to the problem of unemployment and underemployment.

To this end, it is imperative that the Congress implement the full employment policy enacted at the end of World War II, in the Employment Act of 1946, with such programs as domestic economic development, accelerated public works, and expanded public service employment.

It is only equitable that no individual or group bear a disproportionate share of the burden to realize benefits for the common good. We again urge Congress to pass legislation implementing a program of full adjustment assistance so that any worker (or small farmer) whose job is adversely affected by imports should be given prompt and adequate compensation.

A more equitable structure of world trade is absolutely essential to the promotion of social justice. We believe that such restructuring is possible because people are becoming more aware of the profound reality that all persons are united in one human family. Furthermore, we believe people are capable of restraining impulses of cupidity and selfishness when encouraged by community standards to do so.

In view of this, we are impelled to speak out against forces which are divisive of the human family, such as the cupidity of private corporations and narrow national self-interest. We believe confidently in the possibility of liberating men from economic injustices, and in the desire of the American people to promote that liberation.

INTRODUCTION

One of the most significant duties laid on the Congress by the U.S. Constitution is the mandate "to regulate Commerce with foreign Nations" (Art. I, Sec. 8, Cl. 3). To carry out that mandate today the Congress must take into consideration a host of thorny economic issues such as the balance of trade and the drain on our gold reserves, monetary reform and integration, the rise of multinational corporations and the exportation of American technology, the new openings to East-West trade and the related question of "most-favored-nation" status, and the economic dislocation of people affected by American trade policy and the related suggestions of safeguards for American jobs and industry. Consideration of these issues is particularly timely now, coming as it does on the heels of the 1972 United Nations Conference on Trade and Development (UNCTAD III) in Santiago, Chile and before the convening this September in Tokyo of the conference of General Agreement on Tariffs and Trade (GATT)).

The purpose of this testimony is not to offer a simplistic remedy for all of these related issues, but to insist that no Congressional review of foreign trade will be complete if it overlooks the impact that American policies have on the powerless poor both at home and abroad.

Even a cursory look at today's world reveals that it is economically out of balance. Not only are there rich people and poor people in the United States, but on a global scale there is a vast, ever-widening gap between people in the industrialized nations and people in Third World nations. That such glaring injustice has long been part of the human condition, can tranquilize the consciences of only the callous or the phlegmatic, for "we are at a moment in history when the development of economic life could diminish social inequalities if that development were guided and coordinated in a reasonable and human way." [1] Efforts to solve this urgent, critical problem cannot be postponed indefinitely, for "the contrast between the economically more advanced countries and other countries is becoming more serious day by day, and the very peace of the world can be jeopardized in consequence." [2] Responsible men, then, are compelled to take effective action to eradicate economic injustice for two reasons: for the first time in history, we now have the capacity to do so, and we are faced with terrifying consequences for our species and our planet if we do not do so.

To discourage action for justice in this area, it is argued that the gap is caused, to some extent, by inept domestic policies in Third World countries. While there is some truth in this position, the more significant fact for us is that poor nations are systematically made poor and are increasingly vulnerable to a new form of colonialism.[3] Hence, it is incumbent on rich nations to do more than

[1] Vatican Council II, "Pastoral Constitution on the Church in the Modern World," 1963, n. 63.

[2] *Ibid.*

[3] World Synod of Bishops (1971): ". . . we have perceived the serious injustices which are building around the world of men a network of domination, oppression and abuses which stifle freedom and which keep the greater part of humanity from sharing in the building up and enjoyment of a more just and more fraternal world . . ." "Justice in the World," Division of Justice and Peace edition, p. 1.

offer Third World nations gratuitous advice on how to extricate themselves from the plight that rich nations themselves provoke, in large measure, because of their own cupidity and waste.

To foster the liberation of Third World countries from economic injustice is a humanitarian goal closely linked to the message of the Christian Gospel, which transcends national boundaries and men of Christian faith.[4]

The call for justice by Christian churchmen is not a novelty among so-called Christian social activists. St. Ambrose of Milan, a 4th century bishop, said: "You are not making a gift of your possessions to the poor person. You are handing over to him what is his. For what has been given in common for the use of all, you have arrogated to yourself. The world is given to all, not only the rich."[5] This demands far more than an occasional act of charity or the proverbial sharing of crumbs from the rich man's table with the poor beggar at his gate. The size of the remedy must be proportionate to the seriousness of the injury. One can no more cover a gaping wound with a band-aid than can rich nations deal superficially with the symptoms of underdevelopment in poor nations. Instead, rich nations must respond to the evergrowing awareness among Third World nations of their right to development.[6] They must make it their policy to correct the systematic economic injustice that denies to poor people the economic resources necessary to alleviate human suffering and promote development.

Three principal means of providing economic resources to poor countries are available to rich countries: financial aid, investment capital and international trade. Official development assistance is distinguishable from investment and foreign trade as a political reality, with its own strategies and rationale in the U.S. Congress. This testimony concentrates on two issues presented to the 93rd Congress in its review of foreign trade legislation:[7] (1) regulation of American overseas investments, and (2) restriction of imports into this country.

PRIVATE INVESTMENT AND FOREIGN TRADE IN A SOCIAL JUSTICE PERSPECTIVE

These two issues—private overseas investment and import barriers—are the subject of serious treatment in papal teachings on social justice. Roman Catholic Christianity has consistently refused to canonize the "free enterprise" system of western capitalism and its companion rule of free trade. Underlying this refusal is the church's espousal that the right of private property is not absolute, but rather must be balanced against the needs of the society as a whole.

More than forty years ago, Pope Pius XI characterized the free market economy as a struggle between private business competitors, which produces a concentration of massive power and wealth in the hands of a few. This "economic dictatorship [then] regulated the flow of the entire economic system,"[8] finally creating an "international imperialism whose country is where profit is."[9]

Pope Paul VI, in his encyclical *On The Development of Peoples*, in 1967, took up this theme again and condemned as abusive the "type of capitalism [which] has been the source of excessive suffering, injustices and fratricidal conflicts whose effects still persist."[10] The Pope stated clearly and strongly that, "Private property does not constitute for anyone an absolute and unconditional right. No one is justified in keeping for his exclusive use what he does not need when others lack necessities."[11]

These issues are particularly relevant to Third World nations. The Second Vatican Council acknowledged the interrelatedness of capital investment and world development. However, the Council admitted that unless the practices of modern businesses "undergo a profound change," the poor nations will be deprived of the material assistance necessary to their development.[12] The rule of so-called free trade is especially vulnerable to criticism. Pope Paul claims it is "no longer able to govern international relations . . . because conditions

[4] Cf. Mt. 25 : 31–46.
[5] Cited in Paul VI, "On the Development of Peoples," 1967, n. 23.
[6] World Synod of Bishops, *op. cit.*, p. 5.
[7] The Foreign Trade and Investment Act of 1973, S. 151 by Mr. Hartke, H.R. 62 by Mr. Burke; and the Administration's Trade Reform Act of 1973, H.R. 6767 by Mr. Mills.
[8] Pius XI, "On Reconstructing the Social Order," 1931, nn. 105–106.
[9] *Ibid.*, n. 109.
[10] Paul VI, "On the Development of Peoples," 1967, n. 26.
[11] *Ibid.*, n. 23.
[12] Vatican Council II, *op. cit.*, n. 85.

differ too widely from country to country: prices which are 'freely' set in the market can produce unfair results."[13] Adapting Leo XIII's vision about the need for equality among bargaining partners in industrial relations, Pope Paul sets as a guideline "freedom of trade is fair only if it is subject to the demand of social justice."[14]

REGULATION OF AMERICAN OVERSEAS INVESTMENTS

Papal teaching becomes quite specific in applying social justice principles to private investors' activity in the Third World. Since fifty percent of the direct foreign investments in all of the nations of the Third World is U.S. captial,[15] these principles are particularly relevant to the subject of our overseas investments.

In 1967, Paul VI condemned the double standard of those multinational corporations which show a degree of social sensitivity in rich countries but apply only rugged and inhuman individualism in poor countries. The Pope felt that their "advantaged situation should move them to become initiators of social progress and of human advancement in the area where business calls them."[16] By 1971, in *A Call to Action*, the Pope describes the MNC's as "new economic forces which by the concentration and flexibility of their means can conduct autonomous strategies which are largely independent of the national political powers and therefore not subject to control from the point of view of the common good."[17] It seems that the Pope was not optimistic about the prospect that the MNC's might spontaneously initiate reform measures leading to social progress. Drawing on the implication in this Papal teaching, the United States Catholic Conference last year called for international regulation of the MNC's.[18]

The need for some kind of international regulatory body to monitor the activities of the multinational corporations has been recognized by both church and secular leaders.[19] These acknowledgements of a need for international regulations allude to long-range goals not yet within the consciousness, let alone the consensus, of many rich nations. Justice demands that some immediate steps be taken, rather than waiting for international agreements to regulate the activities of the MNC's as an attempt to rectify the imbalance of economic power in our lopsided world. Individual nation-states must proceed without delay to establish such controls within their own jurisdictions.

Congressional power to regulate overseas operations of U.S.-owned MNC's would be a logical extension of the power to regulate corporations operating within the United States, for example the Sherman and Clayton Anti-trust Acts.

Three control mechanisms are suggested by the situation: (1) cancelling government subsidies to MNC's in favor of a special tax for the economic and human development of Third World countries, (2) imposing penalties for intervention by MNC's in the political and economic affairs of Third World nations, and (3) legislating limits to profit-taking in the Third World.

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[13] Paul VI, *op. cit.*, n. 58.

[14] *Ibid.*, n. 59.

[15] Raymond Vernon, "Multinational Enterprises and National Security," London: The Institute of Strategic Studies, 1971, p. 21.

[16] Paul VI, *op. cit.*, n. 70.

[17] Paul VI, "A Call to Action," 1971, n. 44. These "autonomous strategies" can have harmful effects on poorer nations development plans. For example, through modern advertising techniques, markets are created for products unrelated to the real development needs of these countries. The Pearson Report (*Partners in Development*, New York: Praeger, 1969, p. 122) noted that "private capital flows are simply not available to finance many of the investments which are a prime need in developing countries—schools, roads, hospitals, irrigation." Furthermore, the kind of technology stimulated by the investments is often counter-developmental. "Each car which Brazil puts on the road denies fifty people good transportation by bus. Each merchandized refrigerator reduces the chance of building a community freezer." (Ivan Illich, "Planned Poverty: The End Result of Technical Assistance," *Celebration of Awareness*, New York: Doubleday, 1971.)

[18] USCC "Pursuing Peace: Working for Justice," 1972. One example of such regulations affects the seabeds which contain unmeasured quantities of wealth. The USCC supports the Draft Seabed Treaty which provides "that the resources of the deep ocean floor would be under the jurisdiction of an international regime, and that revenues collected from their sale be used for international development purposes."

[19] Cited in USCC "Economic Power in a Shrinking World," 1972. Bishop Alexander Carter, "The Problems Which Sovereign Super-States and Multinational Corporations Present to the Building of a World Community," Address at the World Synod of Bishops, Rome, 1971.

See Senator Javits' proposal for extending the General Agreement on Tariff and Trade (GATT) to international investment, 117 Congressional Record S6275 (March 5, 1971); Robert Sarnoff, Jr., Chairman of the Board of Directors of RCA, Address in Liege, Belgium, May, 1971.

Special tax for human development

One bill before the Congress proposes to eliminate existing government subsidies to the MNC's in the form of preferential tax provisions.[20] The first of these proposals would subject all the foreign source income of U.S. MNC's to annual taxation, thereby eliminating tax deferrals. Presently the profits of subsidiaries of U.S. corporations are not taxed until such income is distributed to U.S. stockholders in the form of dividends. Admittedly this measure would put U.S. companies at a competitive disadvantage in the short run with foreign [mostly European] competitors who are presently allowed by their governments to retain their earnings without penalty. However, the present tax deferral for U.S. foreign income constitutes a serious departure from the traditional U.S. principle of tax equity and neutrality, in that it gives favored treatment to a business venture that manages to keep its profits invested abroad.

In reviewing this provision of the Internal Revenue Code, it is important to note that according to a report submitted to Congress, U.S. corporations with investments abroad in theforeign-incorporated subsidiary form are currently able to enjoy annual tax savings of approximately $900 million through tax deferral.[21]

A second tax reform measure proposes to repeal the foreign tax credit.[22] Currently U.S. corporations are entitled to full credit for any taxes paid to a foreign country on income arising in that country. The suggested tax reform would downgrade such tax payments for a full tax credit to an allowable tax deduction from a corporation's gross earnings. Analogously, on the domestic scene, a U.S. taxpayer may deduct from his total income any state or local taxes he has paid, but he cannot subtract such taxes from his federal tax bill as a tax credit. Presently, on the international scene, foreign profit taxes are considered as equivalent to the U.S. corporate tax and allowed as credits.

Once again, the Congressional report previously noted states "that had foreign taxes been treated as deductions rather than credits . . . U.S. tax earnings would have increased by $1.1 billion [in 1966]." [23]

In addition to these commendable proposals, we favor the creation of a special fund for the use of revenues generated under such a tax reform. This is an adaptation of a proposal for a world fund which Paul VI made in his encyclical, *On The Development of Peoples.*[24] Americans are familiar with the notion of "earmarked taxes", or taxes which are placed in a trust fund and which may be spent only for a specific purpose. For example, when a motorist pays a tax of 10¢ a gallon on gasoline, he knows that the tax may be spent only for purposes of facilitating transportation, such as the construction and maintenance of highways or rapid transit systems. The rationale for this kind of tax is that only the users of public transportation networks should be required to pay for them.

Similarly, we propose that all revenues generated under the two reforms cited above be earmarked for a special fund for the development of poor nations, and not accrue to the general fund of the U.S. Treasury. The rationale for such a tax is that those who would benefit financially from operations in the Third World should contribute to its development. The fund should be administered by a multinational agency, such as the United Nations Development Program (UNDP), or the World Bank International Development Association (IDA), and should be used not only to stimulate economic growth, but also to meet other development needs such as those relating to health, education, and welfare. In administering the fund, the control agency should remain responsive to the self-determined needs of the poor nations and to the poor nations' plans and strategies for dealing with those needs.

Penalties for political intervention

The charge that multinational corporations are "new economic forces which . . . can conduct autonomous strategies . . . and therefore not subject to control from the point of view of the common good" must be met.[25] Recent hearings by the Senate have disclosed that U.S.-based businesses obviously fall within this category.[26] In light of the substantive evidence of attempts by MNC's not only to

[20] S. 151 and H.R. 62.

[21] Peggy B. Musgrave, "Tax Preferences to Foreign Investment," *The Economics of Federal Subsidy Programs,* (A Compendium of Papers submitted to the Joint Economic Committee of the Congress, June 11, 1972), p. 192, cf. pp. 188–193.

[22] S. 151 and H.R. 62.

[23] Musgrave, *op. cit.*, p. 186, cf. pp. 185–188.

[24] Paul VI, "On the Development of Peoples," n. 51.

[25] Paul VI, "A Call to Action," n. 44.

[26] See Senate staff report, "The Multinational Corporation and the World Economy," Senate Finance Committee, Feb. 26, 1973.

wield vast economic influence to control foreign policy decisions of the United States, but even to intervene directly, although coverty, in the political life of Third World countries, the Congress should enact adequate control mechanisms, including stiff penalties to curb this abuse of power.[27]

Limits to profit taking

The unequal bargaining power that exists between rich nations and poor nations is remarkably similar to the inequitable owner-worker relationship in this country prior to the advent of labor unions and collective bargaining. The formation of effective and socially responsible coalitions by which poor nations can act in consort to demand better prices for natural resources needed by wealthy consumer nations, is a hopeful phenomenon.[28]

However, until these coalitions become stronger and more widespread, the demands of justice suggest that the United States take legislative measures to curb excessive profit-taking by American-owned MNC's operating in Third World countries.[29] When profits are taken in excess of this statutorily determined limit, they should not accrue to the U.S. Treasury, but should be rebated through appropriate multinational agencies to the country from which the MNC has derived the profit.

The absence of such legislative restraints on profit-taking, exposes the U.S.-owned MNC's to increasing pressures of nationalization by Third World countries.[30] An additional hazard is that these pressures increase the possibility of attempts to induce the U.S. government to take countermeasures, such as threats of economic sanctions, abuse of the U.S. veto powers in international organizations, and other more drastic steps, against these countries.

Similarly, consideration should be given to the regulating of interest rates charged by U.S.-owned lending institutions operating in Third World countries. A precedent for such regulations may be found in domestic usury laws defining legal rates of interest.[31]

Finally, U.S. Government financial insurance protection, under the Overseas Private Investment Corporation (OPIC), for private American investors in the Third World, needs review. Supporters of this program argue that this protection is necessary because investors are exposed to great risks, such as expropriation or revolution. Two objections are in order. First, through this policy the Federal Government unfairly favors overseas investors over domestic investors. As Senator Frank Church has stated: OPIC "insures American companies against risks abroad for which no comparable insurance is available at home." [32] Secondly, the chief function of OPIC is to cover the risk of overseas capital investments despite the fact that investors insist that their right to take profits is based on the risk of their capital. This curious blend of socialism and capitalism provides a form of welfare benefits for a small powerful segment of the society.

RESTRICTION OF FOREIGN TRADE

The second issue raised by trade legislation before the 93rd Congress is the restriction of foreign imports into our country. Since poor countries rely heavily on their foreign exports as a source of development capital, the impact of this proposal on these nations' access to U.S. markets must be scrutinized carefully from the perspective of global economic justice. In any discussion of U.S. imports, however, consideration of their impact on the American job market is crucial. To pit the American working class, many of whom are jobless or underemployed, against the poor of the Third World violates the principles of social

[27] See report and hearings "International Telephone Company and Chile, 1970–1971." Senate Sub-Committee on MNC's, 1973.

[28] Examples of such coalitions are the Organization of Petroleum Export Countries (OPEC), the coalition of coffee-producing nations (the "Geneva Group"), and the copper-producing nations (CIPEC). Paul VI spoke favorably of such coalitions in "A Call to Action," No. 64.

[29] In the 22 years 1950–1971, new direct U.S. foreign capital investment overseas totaled $46.3 billion, while income from direct foreign investment amounted to $88.4 billion. Department of Commerce *Survey* of Current Business, June 1972 and October 1972 issues.

[30] Two foreign U.S.A. based MNC's recently received no net compensation for property nationalized by the Assembly of Chile. The decision was made on the grounds that it is legitimate to deduct from the total compensation owed to the MNC the amount of profits made in excess of a legitimate profit of 12% on their return. The figure of 12% was based on the rate of profits made by the companies in their worldwide operations as contrasted to the excessive rate of up to 156% made on their investment in Chile. See "International Legal Materials," Vol. 10 (1971) and Vol. 11 (1972).

[31] J. S. Meth, "U.S. Law of Usury," New Catholic Encyclopedia, 1967, Vol. 14, p. 500.

[32] Frank Church, "A Farewell to Foreign Aid," *Development Today*, New York: Praeger, 1972, p. 259.

justice. It is therefore necessary to make critical distinctions in considering such trade proposals under the headings of two legitimate and interrelated concerns: 1) open access of American markets to poor nations, and 2) adequate safeguards for American workers.

Access to American markets

Proposed legislation previously cited would set up quotas or quantitative restrictions on imports. Because there is no differentiation in the bill between goods imported from rich countries and those imported from poor countries, this protectionist provision can only be interpreted by Third World countries as yet another proof of what they have long alleged: that rich countries determine to their own advantage the rules of world trade [33] and that the biggest obstacle to the economic growth of poor countries is the variety of restrictive trade policies imposed by the rich countries.[34]

According to the rules of world trade, poor countries must sell "non-competing products," that is, products which only they can provide, to rich nations at rates and quotes fixed by the rich consumer nations of the north. And, when poor countries produce "competing products" and try to sell them in the markets of the rich, they find high tariff walls protecting both agricultural and processed goods and a host of complex "non-tariff barriers" restricting the very goods which poor nations can produce best (labor-intensive as opposed to capital-intensive products).[35] Some comment on each of these economic injustices follows.

First, we repeat the plea we made in 1972 "for fairer prices for raw materials." At that time, we stated: "This is particularly compelling in the name of justice because the commercial relationship between our nation and the poor nations is so asymmetric that the rule of so-called free trade is obviously not capable of regulating world trade with justice. Therefore, deliberate measures must be taken so that the importations from these poorer countries can find adequate markets in the U.S." [36]

In this regard, we urge that the United States conclude multilateral commodity agreements between producing and consuming nations. In such agreements, producing nations should have a majority, or at least an equal, voice in determining stable, remunerative reference prices of such commodities which, then, shall be accepted as a guaranteed minimum by the consuming countries. These agreements should also contain provisions for the maintenance of adequate reserves to protect against price and supply fluctuations resulting from crop failures.

Trade barriers affect agricultural commodities as well as manufactured products. At present, agricultural protectionism is another instance of trade balances loaded heavily against poor countries. Not only do the rich countries, in effect, close their markets to competing agricultural products from poor countries (e.g. sugar, rice, tobacco, cotton, and cereals), but by their agricultural policies, they also serve often to reduce the sale of these goods in the world market, keeping prices and profits low for the small amount poor countries do succeed in selling.[37]

The above-mentioned U.S. Catholic Conference statement of 1972 extends also to competing manufactured products made in the Third World. Once again we urge that "preferential treatment for their exported manufactured goods must be given to growing nations." [38] In 1968, at UNCTAD II, the nations of the world issued a call for generalized preferences for the poor countries.[39] In 1970, the U.S. government responded to this call and pledged to adopt a General System of Preferences which would allow poor countries to export their products duty free to the rich nations on a world-wide, non-reciprocal basis.[40]

Of the rich countries of the world, only the United States and Canada have not yet acted on their pledge to establish a generalized system of preferences for exports from poor countries. To the degree that Title VI of the Administra-

[33] "[Third World Nations] recent *de facto* exclusion from discussions on world trade . . . which vitally affect their destiny [is] an example of lack of power which is inadmissible in a just and responsible world order." World Synod of Bishops, op. cit., p. 18.

[34] Cf. Jan Tinbergen, "Trade Policy and Economic Growth," *International Labor Review*, Vol. 101, No. 5 (May 1970), pp. 435–440.

[35] Cf. Marion Gallis, *Trade for Justice: Myth or Mandate?* Commission on Church's-Participation in Development, Geneva, 1972, pp. 23–73.

[36] USCC, "Pursuing Peace: Working for Justice," 1972.

[37] Marion Gallis, *op. cit.*, pp. 37–46.

[38] USCC, *op. cit.*

[39] UN Publications, TD/97 Vol. 1, New York.

[40] Report of the Special Committee on Preference, Trade and Development Board, UN Publications, TD/B/AC5/36/Rev. 1/Supp. No. 6A, New York, 1971.

tion's Trade Reform Act serves to honor that pledge, it is commendable. But we wish to record the following serious reservation. The "competitive need" formula specifies that a poor country shall lose preferential treatment if it supplies "50% by value of the total imports of an eligible article *or* a quantity of that article having a value of more than $25 million." [41] This provision should either be eliminated altogether or modified to apply only for a given year in which a country has exceeded *both* the $25 million limit and the 50% value added limitation on a commodity shown to work an adverse effect on U.S. economic interests or on our balance of trade with that country.

Granting a more generous system of trade preferences to poor countries is actually in our own economic self interest, for in the decades ahead we will necessarily become more interdependent with the Third World, which already not only supplies the United States with increasing amounts of energy fuels and raw materials, but also buys one third of our exports and actually provides us with a trade surplus.

The fact remains, however, that policies of rich countries have systematically kept the Third World countries dependent countries, poor customers, and poor bargainers. To illustrate. "The Kennedy Round of tariff negotiations cut in half the tariffs on goods traded between rich countries. But it did almost nothing to tariffs on goods from poor countries, and therefore left these countries relatively worse off than before." [42] Thus, "both the nominal and effective tariff rates of the United States and Western developed countries as a whole are much higher on imports from developing countries than on imports for rich countries." [43] For example, the average American trade barrier against manufactured imports from rich countries was a tariff of 6.8%, while the average post-Kennedy Round tariff for manufactured imports from poor countries was a disproportionate 12.4%.[44]

The existence of such discriminatory tariff rates illustrates the principle of Anglo-American contract law that the cruelest form of inequity is to treat as equals before the law parties who, in fact, have grossly unequal bargaining power. Hence, global justice demands generalized preferences for Third World countries to enable them to counteract in some measure the innumerable handicaps and economic disadvantages they now experience in trying to gain excess to the "open" markets of the rich.

Some poor countries may gain modest benefits from the Generalized System of Preferences proposed in the Trade Reform Act of 1973, but this proposal is so hedged with the restrictive limitations mentioned above, that only one-tenth of all imports from poor countries in 1971 would actually have received preferential treatment.[45] Even if the restrictions on preferences are amended according to our suggestion noted above, the demand, in justice, of poor countries to participate meaningfully in major trade negotiations which initially affect their destiny, would remain. Hence if the Congress is willing to delegate to the President the authority to negotiate new agreements on tariffs and non-tariff barriers to trade, it should, as a minimum, require that the poor countries be invited to participate in such negotiations.[46]

In addition, non-tariff barriers such as import quotas can be just as discriminatory against poor countries. As a general rule, poor countries potentially have a comparative advantage in specializing in exports requiring labor-intensive production and exports of products made from raw materials indigenous to their area. This is true because these nations have a larger source of manpower available and transportation of a final product is considerably less expensive than the costs of shipping raw materials in their crude state. Import quotas, then, are particularly unjust when they inhibit the flow, and therefore the production, of those goods well-suited for manufacture in poor countries.

Safeguards for American workers

This assessment of world trade generally meets with strong opposition from organized labor in the United States, which rightly points out that while some

[41] H.R. 6767, Sec. 605(c).

[42] James P. Grant, "Jobs and Justice," *Development Today*, New York: Praeger, 1972, p. 150.

[43] Guy Erb, "Trade Preferences and Multilateral Negotiations," Testimony to House Ways and Means Committee, May 18, 1973, p. 11.

[44] Comparable average effective rates, calculated by taking into account additional duties on imported inputs for production, were 11.6% on rich country imports, and 23.9% on poor country imports.

[45] Charles Frank, "The Trade Reform Act and U.S. Trade Policies Toward Developing Countries," Testimony to House Ways and Means Committee, May 18, 1973, p. 4.

[46] World Synod of Bishops, *op. cit.*, Item 4, p. 18.

benefits might accrue to the economy as a whole by allowing open access to our markets, the costs of this policy are paid by a specific group of American workers, usually on the lower scale of our economy.

It is critical, in all of this, that the poor of the Third World are not made the "enemy" of the American worker. Both groups, in fact, are often victims of economic injustice. Hence, the energy focused on establishing restrictive trade barriers might better be focused on overcoming the frequent indifference of large sectors of our society and of our government to the problem of unemployment and underemployment. To this end, it is imperative that the Congress affect a full employment policy such as was enacted at the end of World War II, in the Employment Act of 1946, with such programs as domestic economic development, accelerated public works, and expanded public service employment. In addition, Congress should heed the demands of organized labor for a stronger minimum wage law and for adequate funding of manpower training programs.

Organized labor in the United States has also warned against the danger of encouraging "sweatshops" wages for poor countries. Pope Paul VI's query about why foreign investors and multinational corporations apply "inhuman principles of individualism when they operate in less developed countries" cannot be ignored.[47]

At the very least, "wages paid in labor-intensive export industries should not be lower than those for similar work in other manufacturing activities of the country, or should be in line with the general wage level of the country as a whole." [48] As for minimally acceptable labor standards, "a prerequisite would be that employment conditions in exporting firms and industries should not be inferior to those in other comparable industries in the country concerned." [49]

To go beyond these minimum requirements and take a more advanced step toward effecting social justice, we support, for example, proposed legislation to bring employment practices of U.S. firms in South Africa into conformity with legislation for equal employment opportunity in the United States.[50]

It is only equitable that no individual or group bear a disproportionate share of the burden to realize benefits for the common good. Hence, any worker whose job is affected by imports should be given prompt and adequate compensation, either in the form of another job for which he is trained, or in the form of continuance of his prior wage and fringe benefits until another suitable job is available. The Social Fund of the European Common Market, and the Amtrak provisions in our country, provide empirical evidence that adjustment assistance can serve to protect American workers against adverse effects from imports from poor countries.

We again, therefore, urge the Congress to pass legislation implementing a program of full adjustment assistance.[51] The provisions of Title II of the Trade Reform Act are inadequate on two counts. Alone of all the measure on adjustment assistance before the Congress, the Administration bill recommends cuts in both the level and the duration of benefits for the American worker adversely affected by imported goods. Secondly, rather than expanding the meager existing benefits in the forms of loans, technical assistance, and tax relief for small businessmen similarly affected by imports, it eliminates all such benefits granted under the Trade Expansion Act of 1962. Since the cost of an effective adjustment assistance program is relatively low and the benefits to consumers for allowing imports from poor countries are high,[52] a full adjustment assistance program is called for. In this way, justice for poor countries will not produce economic injustice at home.

The concerns expressed above for American labor also apply to small farmers and farm workers affected by changes in import policies. Small producers with large capital investments in the production of a given commodity face tremendous losses when their markets are lost to foreign imports. Some assistance should be assured to those least able to adjust to the changes which might result from trade agreements.

Negotiations in agricultural trade should not be undertaken without an awareness of the impact of commodity agreements on American producers. Our commitment to a family farm agriculture in the United States will only be up-

[47] Pope Paul VI, *op. cit.*, n. 70.
[48] Marion Gallis, *op. cit.*, p. 21.
[49] *Ibid.*
[50] USCC, *op. cit.*
[51] USCC, *op. cit.*
[52] Charles Frank, *op. cit.*, p. VI.

held if small producers are protected from the losses which result from deflated market prices. It is unreasonable and unfair to build a favorable American trade balance on excessively low farm prices.

CONCLUSION

The creation of more equitable international trade structures is meaningless, of course, if these structures are not linked with serious efforts to promote social justice within and by the poor countries themselves. The United States and the world community should support such efforts whenever they occur in poor nations. If denied these means, however, of increasing their productive capacities, these nations will be unable to achieve real political and economic independence, that is, development.[53]

Therefore, a more equitable structure of world trade is absolutely essential to the promotion of social justice. We believe that such restructuring is possible because people are becoming more aware of the profound reality that all persons are united in one human family. Furthermore, we believe people are capable of restraining impulses of cupidity and selfishness when encouraged by community standards to do so.

In view of this, we are impelled to speak out against forces which are divisive of the human family, such as the cupidity of private corporations and narrow national self-interest. We believe confidently in the possibility of liberating men from economic injustices, and in the desire of the American people to promote that liberation.

STATEMENT OF MIKE MASAOKA, AMERICAN JAPANESE FOR FREER INTERNATIONAL TRADE

Since—through no fault of the Committee—it was not possible to testify in person on pending trade legislation, and since Americans of Japanese ancestry probably have more at stake in friendly and profitable commercial relations with Japan than any other group in this country, I am taking this means and opportunity to present some of our views at this time in the hope that they may contribute to the constructive congressional consideration of trade principles, policies, and practices.

At this time, I am representing two ad hoc groups of Japanese Americans, both now in the process of organizing in order that the Congress, the Administration, and the public at large may become aware of the unique interest and concern of American citizens of Japanese Trade Committee, whose National Chairman is attorney Thomas T. Hayashi of New York, composed of Americans of Japanese background who are involved as businessmen, farmers, and lawyers in the export-import trade with Japan. The other is the Nisei (American Japanese) Lobby, whose National Chairman is George J. Inagaki of Los Angeles, California, composed of America citizens of Japanese ancestry who believe that their unprecedented experiences before, during, and after World War II can make a meaningful and constructive contribution to a better American and a more peaceful and profitable Pacific era.

Members of both organizations have melancholy recollections that deteriorating trade relations between Japan and the United States in the late 1930s were among the major factors leading to the Pacific War, with all its tragedies and travails for all Americans in general but for American Japanese in particular. Accordingly, it should not be difficult to understand the motivations and the interests of these two ad hoc groups in the legislation currently before the Committee.

Moreover, as one who has represented Japanese Americans in Washington for more than the past quarter century, I am painfully aware that the general climate of United States-Japan relations determines to a significant degree beyond our own personal control our acceptance, as it were, as an American nationality minority in this land of our citizenship.

Thus, today, when economic issues are beyond doubt the major irritant in American-Japan relations—and will probably remain so in the immediate future—legislation that will substantially affect commercial relations with Japan are

[53] "If developing nations and regions do not attain liberation through development, there is real danger that the conditions of life created especially by colonial domination may evolve into a new form of colonialism in which the developing nations will be the victims of the interplay of international economic forces." World Synod of Bishops, *op. cit.*, p. 5.

of tremendous consequence to us both as individuals and as a minority nationality.

NO TIME FOR ACTION NOW

From the beginning, from early this year when there was some discussion as to whether this Administration would submit a comprehensive trade package to the Congress, we questioned the wisdom of such legislation at this particular point in time. We thought then—and we still think—that any effort to rewrite and "modernize" our trade code was premature and ill-advised.

There are many economic and related problems, internally and externally as far as the United States is concerned, which significantly affect trade relations not only with Japan but with the world at large. They, and their implications and ramifications, are so compelling and multitudinous that it is our opinion that the United States should wait for their resolution, or at least some more definitive indication of their potential solution, before we promulgate a more or less permanent statute, for trade legislation is not a year-by-year congressional operation. For instance, the last trade bill enacted into law was the Trade Expansion Act of 1962.

Some of the more obvious problems are the following:

The lack of a "modern" international monetary system that not only assures the integrity of the American dollar but also foretells realistic, pragmatic, and stable foreign exchange operations.

The adverse balance of payments and of trade that currently jeopardizes American relations with not just the industrially advanced but also the less developed countries.

The emerging ties with the Union of Soviet Socialist Republics and the People's Republic of China, as well as with other Communist bloc nations.

The power, influence, and the direction of the newly enlarged European Economic Community, and the potential development of regional economic unions.

The need and the necessity to "modernize" worldwide machinery for encouraging trade and commerce not only among the free enterprise nations but also with the state economies of the Communist countries by possibly reorganizing or replacing such international trade organizations as the General Agreement on Tariffs and Trade, the International Monetary Fund, etc.

The threat of escalating inflation in this country that hints of more and greater difficulties for the world economy.

The so-called energy crisis that may force a complete overhaul of existing concepts of international cooperation and the balance of payments.

The acute shortages in wheat and other grains and agricultural products for export, not to mention the transport required for deliveries.

The developing controversy over the so-called multinational corporations as to whether they aid or threaten foreign policy objectives, benefit or damage the national economy, increases or decrease employment, etc.

The unprecedented revelations of Watergate, with all its multitudinous implications, which have not only undermined confidence in the Presidency and the Government but may also encourage allies and adversaries alike to try to "take advantage" of our present "difficulties" in negotiating and "bargaining" sessions involving bilateral and multilateral issues. These disclosures bring into focus too the real dangers of entrusting discretionary authorities to the Executive, for such vast authority invites special interest groups and individuals to pressure and intimidate a President to exercise certain of his discretions for selfish gain and not the public good.

With the economic, commercial, monetary, political, cultural, scientific, and even military and security relationships that have been built up since the end of World War II in a traditional stage, would it not be more appropriate to the times to postpone the enactment of a long-range, comprehensive trade program until many, if not most, of these burdensome and consequential problems are either resolved or close to solution, for it may well be that an entirely different approach and concept may be needed within even the next year or two for the new situations, challenges, and alignments that may result?

When precipitous action is contemplated, we recall the so-called wheat "deal" with the USSR of only last year, which was originally hailed as a monumental breakthrough for private trade with the Russians. Now that some of the problems incidental to that publicized arrangement have come to light, there are many who seriously question the wisdom of that particular action, for it has affected the wheat supply of the nation, the price of bread and runaway inflation, the

basic agricultural policy of the government, the storage and transportation facilities within the United States, the method of transacting "business" with a state controlled monopolistic enterprise, etc.

Against Expeditious Enactment

In spite of the undoubted chaos and confusion in the domestic and international sectors which affect trading relationships, Administration spokesmen urge early congressional passage of its proposed trade package for three principal reasons.

They argue that H.R. 6767, the Trade Reform Act of 1973 proposed by the Administration, is the only possible alternative to the American Federation of Labor and Congress of Industrial Organizations (AFL–CIO) sponsored H.R. 62 in the House and S. 151 in the Senate, the so-called Burke-Hartke Foreign Trade and Investment Act of 1973, which they contend—and rightfully—is retrogressive and repressive, reversing almost four decades of American trade policy which has brought about unprecedented prosperity, economic growth, and cooperative benefits for most of the world.

They also argue that the Administration sponsored legislation is required to induce a freer and fairer international trading system for all.

They argue too that, unless the United States assumes immediately the initiative for expanding worldwide trade, there are grim portents that the nations of earth will be driven toward economic nationalism, isolationism, and protectionism. They claim that, unless the Congress clearly demonstrates its intention to pass liberal trade legislation by the time that the ministerial meeting of the GATT is held in Tokyo this September, Japan, Canada, the EEC, and other countries may not begin to bargain with the United States in good faith to reduce tariffs and to eliminate nontariff barriers.

In refutation of the first argument, it should be noted that it appears that much of the initial "enthusiasm" for the Burke-Hartke Bill has waned and that many members of Congress who are consistently pro-labor now believe that the import restrictions and other features of the proposal are too protectionist and self-serving.

As for the second argument, it should be clear by this time that, while Administration leaders may assess their draft proposals as one promoting freer and fairer trade relations, officials in other countries hold various opinions in conflict with that analysis, at least from their own viewpoints.

As for the third argument, it is to be recalled that during the hearings, Administration spokesmen emphasized rather strongly that their bill was not necessarily intended to provide reciprocal and mutually advantageous benefits to all trading partners but rather consequences that would bring what American negotiators considered "fair" treatment of United States exports. They envisioned some of the requested authority as a kind of "club" needed to force reluctant trading partners to "accept" the America formula for freer and fairer worldwide trade. As expressed by some witnesses, some of the proposals smacked of "economic blackmail" in a sense, with some of the sanctions to be conferred on the President inviting "retaliation" on the part of our trading associates, and even increasing the possibilities of a trade war or rampant worldwide protectionism.

ALTERNATE MINIMUM PROGRAM

If the twin premises that Watergate has placed the United States in a possibly disadvantageous bargaining posture in relation to other trading countries and has suggested the dangers of an abuse of executive power even if discretionary are overlooked, and if the Committee in its wisdom ignores the plea to delay or postpone until a more propitious opportunity consideration of the Administration's trade measure, may we respectfully submit a minimum alternative.

The minimum alternative, as we envision it, would be a temporary grant of authority to negotiate on a reciprocal basis for the reduction of tariff rates, an unequivocal invitation by the Congress to other trading nations to indicate their "price" for dismantling or substantially reducing their artificial and arbitrary nontariff impediments to trade, and the cancellation of all tariffs on imports under bilateral or multilateral restraint agreements.

A temporary grant of authority to negotiate on a reciprocal and mutually advantageous basis the reduction of the tariff structure may assure that there will soon be evidence of whether the other nations intend to decrease what tariffs may remain and to move toward a more liberal and expansive world trading community. Since such authority as is contemplated is only temporary,

the concerned nations will not be able to postpone, delay, or procrastinate in their negotiations.

And, since many in Congress have expressed their unhappiness with some of the results of past negotiations relating to nontariff barriers, such as in the case of the American Selling Price (ASP) formula, it may be well for the Congress to know in advance of confirmation the "cost" to the United States of the reduction or removal of certain trade impediments in order to better evaluate the national and international consequences and benefits of specific action in this difficult area of world trade. Aware that the Legislative Branch must be persuaded that a "good bargain" was reached in determining the "price" of reducing or removing nontariff barriers, our trading partners may be more realistic and less demanding in their negotiations with United States representatives.

Inasmuch as bilateral and multilateral control agreements limit the total quantity of the prescribed merchandise that may enter the United States, there is no necessity for leving a tariff as a means of curbing the amount of imports to be allowed into this country. In a time of inflation such as exists at present, these restrained imports will have a greater impact on dampening inflationary tendencies without being subject to tariffs than in paying these special levies.

If there is a time deadline for some definitive congressional indication of its intentions in world trade matters, such as this September's meeting of the GATT ministers in Tokyo, it would seem that Congress would be well advised to limit itself at this time to a minimum temporary program, for the many difficult issues to be resolved in putting together a comprehensive trade package should not be pushed through without adequate research and discussion. Too much is at stake not only for the United States but all the nations of earth now and for the immediate future to tolerate less than thorough study and review of all possible implications and ramifications.

WORLD TRADE ASSEMBLY

Since international trade and commerce are the responsibility of all trading states, and not of any single country, and since some nations do not approve of unilateral action in this area being imposed by the United States because of our unquestioned economic and other powers, to test the good faith and the willingness of other countries to join in developing a truly freer and fairer worldwide trading system the Congress might consider the feasibility of conveying an assebly of nations to consider ways and means of encouraging and practicing mutually beneficial and profitable trading operations.

Such a universal conclave could consider international definitions, standards, systems, problems, and safeguards to facilitate worldwide trade and commerce for the general profit and properity of all participating parties. It could devise reasonable and equitable exchange programs between the free enterprise nations and the state managed economies. It could resolve the conflicting issues of regional blocs and preferences and compromise the confrontation of the industrialized states and the less developed countries. It could create a new and flexible system for handling international monetary arrangements.

And, to adjudiciate and arbitrate disputes and disagreements, perhaps a type of world trade court might be the answer.

The recent unparalleled achievements in communications and travel, and the increasing interdependence of nations and regions, suggest an international approach to the issues of trade, rather than unilateral or even bilateral concepts.

It seems apparent to us that this is the time that the self-interest of nations should be subordinated to the mutual interest of all, and the United States—at this crucial stage in its history and in the history of mankind—has the most to gain from such a universal endeavor to promote international freer and fairer trade for all nations and peoples.

There will be those who will allege that this world assemblage concept is too idealistic and too impractical. Still, there is the example of the United Nations. No matter what its faults and failures, it has survived longer than its ill-fated predecessor, the League of Nations; it has managed to contribute to more than three decades of a peace of sorts between the major powers, even though there have been minor warlike interludes among some of the "smaller" belligerents, in a period when atom and nuclear weapons with intercontinental missile delivery systems capable of destroying this planet was being developed in what is

now considered the dawn of the space age; it has witnessed the interdependence of more than 50 new and sovereign states.

A beginning in such a universal adventure is long overdue, and these are most appropriate times to attempt a beginning. If nothing else is accomplished, at least the areas of agreement can be determined and the areas of disagreement can be delineated.

STATEMENT OF THE NATIONAL COUNCIL OF JEWISH WOMEN, INC., NEW YORK, NEW YORK

The National Council of Jewish Women, an organization founded in 1893, with a membership of over 100,000 located in communities throughout the United States, has had international trade as its concern since 1938. At our Biennial Convention held in Miami Beach, Fla. in March of 1973, the delegates to the convention reaffirmed the following resolution:

"IX FOREIGN POLICY

"The National Council of Jewish Women believes that United States Foreign Policy should be directed toward developing the conditions for world peace wherein human beings live their lives in dignity with the greatest measure of economic social and political freedom. We believe that the United States in cooperation with all nations should pursue every possible alternative to military action as a means of resolving international disputes. It therefore resolves to urge the United States:

* * * * * * *

"4. To support economic development and expansion of economic opportunity throughout the world * * *

"(d) by continuing to develop trade agreements on a reciprocal basis and by supporting international agreements for the reduction of tariffs and other barriers to the free flow of trade."

We agree with the statement President Nixon made in his Trade Message to Congress on April 10, 1973, in which he pointed out that:

"The world is embarked today on a profound and historic movement away from confrontation and toward negotiation in resolving international differences. Increasingly in recent years, countries have come to see that the best way of advancing their own interests is by expanding peaceful contacts with other peoples. We have thus begun to erect a durable structure of peace in the world from which all nations can benefit and in which all nations have a stake.

"This structure of peace cannot be strong, however, unless it encompasses international economic affairs. Our progress toward world peace and stability can be significantly undermined by economic conflicts which breed political tensions and weaken security ties. It is imperative, therefore, that we promptly turn our negotiating efforts to the task of resolving problems in the economic arena."

The National Council of Jewish Women is also an organization of consumers who feel 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 market place; that protectionism is against their interest and that it therefore behooves the American consumers to become vigorous advocates of a freer U.S. trade policy.

The National Council of Jewish Women favors strongly the passage of dependable and effective trade legislation and recognizes the importance of such legislation to meaningful GATT negotiations, but we are deeply concerned with a number of aspects of the proposed Administration bill.

1. Most Favored Nation Treatment to nations with non-market economies

We are greatly concerned that Title V of the Administration bill contains no safeguards against the violation of human rights, namely freedom of emigration. The edict promulgated by the Soviet Union—"Citizens of the USSR leaving for permanent residence abroad to other than socialist countries are under obligation to compensate the state for their education received from higher institutions of learning for graduate work, medical internship, graduate military study and for receiving respective degrees"—is directed primarily against Jews, very large numbers of whom are applying for permission to emigrate. Some of these fees often reach astronomical proportions and very few Soviet

Jews are able to meet this requirement. These fees are only one manifestation of the denial of human rights. Other means of persecution are evident in the Soviet Union. The incarceration of innocent people for long periods of time, harrassment of those who apply for exit permits to emigrate and other manifestations of persecution directed mainly against Jews. We, therefore, strongly support H.R. 3910, sponsored by Chairman Mills, which, if enacted, will prohibit most-favored-nation treatment with respect to any non-market economy country, which denies to its citizens the right to emigrate or which imposes more than nominal fees upon its citizens as a condition to emigrate. Even though from time to time the Soviet Union has relaxed its edict and permitted emigration of some Jews without collecting a fee, we feel that no trade privileges should be accorded to the Soviet Union until the edict is repealed and there is a commitment to allow emigration of anyone who wishes to emigrate.

2. Expanded Authority

We do not quarrel with the liberalized new negotiations authorities requested by the Administration in Title I. Indeed, we feel that flexibility to negotiate non-tariff barriers and customs duties is necessary in the context of international negotiations and agreements, particularly when representatives of other nations are equipped with comparable broad negotiating powers. Such powers for our own negotiators would seem long overdue.

We are concerned, however, when such broad authority is delegated in situations not within the framework of international rules. We have noted five specific instances when the executive branch is given full discretion to impose, increase, reduce or eliminate, temporarily or otherwise, quotas or other forms of trade restrictions. They are—

(1) To provide import relief to industry in fair trade practices under the escape clause provisions, and through orderly marketing agreements.

(2) To retaliate against foreign barriers to our exports.

(3) To protect ourselves against disruptive exports from countries enjoying MFN treatment.

(4) To deal with Balance of Payments imbalances.

(5) In cases of national security.

Although much of this authority, though in some cases to a lesser degree, was present in the original Trade Expansion Act, the pressures of protectionists were not as great in 1962 as they are now. Such sweeping delegation of power, therefore, would seem to be an open invitation to present advocates of trade restrictions to pressure for demands contrary to the goals expressed by the Administration. The laudible aim of "a more open and equitable world trading system" might be reached more effectively through a limitation of power.

3. The Welfare of the Consumer

We are deeply concerned that in only one of the five instances previously mentioned, in the case of import relief to injured industries, is it written into the proposed legislation, that the President shall take into consideration consumer interests prior to making a determination. And it is, even in that case, only one of seven other considerations in addition to those not specified, which the President may deem relevant to his decision.

Considering that the American consumer is the one most likely to be adversely affected by trade barriers, and from the potential trade wars which barriers are prone to generate, this would seem to us to be assigning the Consumer a very low priority.

4. Import Relief and Adjustment Assistance for Workers

There are several points in Title II, the provisions for relief from disruption caused by fair competition, which we would like to see improved.

We cannot ignore the fact that domestic industries can suffer injuries, with serious and perhaps far-reaching ramifications. But these injuries may occur because of imports, yet not be caused by imports. Temporary quotas or tariffs on specific products, though they may bring immediate relief, are a simplistic method of alleviating a deep-seated and long-lasting ailment which, in fact, can be cured only by a vigorous and forward looking domestic economic policy. Such a policy should be designated to encourage and support the competitive ability of United States' industries, and to allow them to profit from foreign input, be it in the form of component parts or of outright competitive products. Emergency relief is valid only as part of a long range program which should offer a

much more permanent and effective form of protection than temporary barriers and not affect our progress toward expanded international trade.

5. A Comprehensive Plan

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. The quixotic aspects of such a trade policy are not very comforting to either the American producer, the importing country or the consumer. What assurances do we have that import relief to the industry will reach the consumer in the market place? Is a rehabiiltated industry obligated to offer the consumer the prices which existed in a competitive market?

There is no policy articulated in the proposed bill, or anywhere else, which puts forward a comprehensive program of assistance which will encompass the industry, the worker and the consumer. Instead the consumer is given but slight consideration before import reliefs are put into effect, and none after they have taken effect, until rising prices force the temporary removal of a trade barrier.

We emphatically deplore such lack of concern and urge the inclusion in our trade policy of an overall "grand design", planned to benefit all relevant parties in an equal manner. Such a policy should consider preventive assistance and long-term support which would, hopefully, eliminate the need of erecting trade barriers for the purpose of short-term relief. We leave the details of such a policy to the experts.

In connection with adjustment assistance for workers, we are concerned with and sympathetic to the plight of the worker displaced and temporarily unemployed because of import related causes. We favor, therefore, the liberalized criteria and increased assistance proposed in the bill. We would like to see this relief extended to the workers adversely affected by import restrictions; workers employed in export-related jobs. We are equally concerned about them.

Conclusion

In order to serve the best interests of all American citizens, and indeed the best interests of our trading partners, the United States must develop a more specific, more cohesive trade policy; one with explicit short and long-term goals; a policy which would take into consideration the needs of industry, the worker and the consumer; thus affirming the fact that these needs are not contradictory to each other. Such a policy, clearly defined, would convince all concerned that the United States is determined and ready to take the steps necessary to assure a "fair and open trading world".

In his message to Congress which accompanied the Trade Reform Act of 1973, 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 ours, presently cost the United States several billion 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 were not intended as mere rhetoric, but 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.

We urge the Committee to report favorably a trade measure which will be dependable and effective in correcting some of the deficiencies of the Administration's proposal.

MACHINERY & ALLIED PRODUCTS INSTITUTE,
Washington, D.C., June 14, 1973.

Hon. WILBUR D. MILLS,
Chairman, Committee on Ways and Means, House of Representatives, Longworth House Office Building, Washington, D.C.

DEAR MR. MILLS: We appreciate the opportunity of submitting our views on both the proposed "Trade Reform Act of 1973" and the Administration's related proposals concerning the taxation of foreign earnings. Although related, the two subjects are different and by their nature require somewhat differing treatment. Accordingly, our statement is divided into two major parts: the first presents our views on the proposed "Trade Reform Act of 1973"; the second presents our

somewhat more extended views on the President's tax proposals and includes an appendix devoted to technical commentary.

THE PROPOSED "TRADE REFORM ACT OF 1973"

General Comments

As you know, the machinery and related equipment industries which we represent have a vital stake in foreign trade. The magnitude of that stake is reflected in the fact that 1972 exports and imports of major categories of machinery totaled $12.7 billion and $6.2 billion, respectively.

This new legislative authority sought by the President is, of course, primarily a response to a long-continued deterioration in the international trading position of the United States as reflected in continuing and enlarging deficits in our international balance of payments and—for the first time in this century—an unfavorable balance of trade. Aside from the worsening of our international competitive position attributable to overvaluation of the dollar, uneconomic labor rates, preferential trading arrangements, etc., the problem is intensified by the existence of a great diversity of nontariff barriers to trade and other unfair trade practices which both hamper the foreign entry of American exports and facilitate foreign exports to the U.S. and third markets. A measure of the decline in our foreign trade position, from the standpoint of capital goods, is reflected in the attached table, *Imports and Exports and Import-Export Ratios for Major Machinery Categories, 1961–1972.*

The President's legislative package is also intended to forestall adoption of such measures as the so-called Burke-Hartke bill which would restrict not only imports but also the free flow of investment and technology.

In pursuit of these general objectives, the President has evidently sought to strike a balance between those who are concerned that the United States and other major trading nations resume the dismantling of international barriers to trade and those who have become increasingly disturbed in recent years about what they consider to be the adverse impact of imports on U.S. industries, workers, and communities.

Our support for this legislation in general terms is based on our belief that broad negotiating authority is needed by the President to achieve his objectives. As the President stated in his April 10 message to the Congress on the Trade Reform Act:

"The key to success in our coming trade negotiations will be the negotiating authority the United States brings to the bargaining table. Unless our negotiators can speak for this country with sufficient authority, other nations will undoubtedly be cautious and non-committal—and the opportunity for change will be lost."

Negotiating Authority

As noted above, we believe the President should be armed with appropriate legislative authority to negotiate or renegotiate the terms of trade with other trading nations as a means of achieving basic fairness in our international commerce. In view of the magnitude and complexity of the tariff and nontariff barriers which will be subject to negotiation, we believe that broad negotiating authority—with respect to both tariff and nontariff barriers—is necessary to achievement of our goals.

As a result of successive tariff reductions on industrial products in recent decades, for a great number of product groups nontariff barriers now figure as importantly as tariffs as barriers to international trade and are expected to be a—if not *the*—major concern of negotiators in the coming round of General Agreement on Tariffs and Trade (GATT) negotiations. Therefore, to give the Administration the necessary bargaining power and flexibility in the negotiations, the Congress should expressly support Presidential authority to negotiate the elimination of nontariff barriers.

Consultation With Industry

In view of the experience gained during the "Kennedy Round" of GATT negotiations and the fact that the coming negotiations will involve trade barriers of great diversity and complexity whose impact is often difficult to measure by government negotiators and even others outside of the specific industry concerned, we believe the Congress should ensure that there are adequate mechanisms for government consultation with industry. We believe this consultation should include the obtaining of industry views concerning the possible trade impact of proposed offers and concessions to be sought (1) prior to negotiations of nontariff

as well as tariff barriers and (2) during the "give and take" of the actual negotiations. It should be noted in this connection that it is the general opinion of industry that European negotiators were more effective than U.S. negotiators during the "Kennedy Round" because of their closer consultation with their domestic industries.

Import Relief From Fair Competition and Adjustment Assistance for Workers

We endorse the general thrust of the Administration's bill to ease the criteria for a finding of injury to an industry and to workers. We believe that there is a broad consensus in our membership that existing statutory and administrative criteria governing such a finding are so rigorous as to fail in achievement of their broad purpose. Based on the experience of some segments of our membership which have undergone sudden and intense competition from foreign (notably Japanese) producers, we believe that the provisions enabling the President to extend import relief to the affected industry for a period would give the industry time to adjust to the competition and would help to minimize import disruption to that industry, its workers, and communities. However, such a program would have to be administered on a highly selective basis so as to minimize disturbance to other industries which might be affected if the United States extends "compensation" in the form of reduced import restrictions on its products or if restrictive actions by the United States result in retaliation by our trading partners.

Since it is essential to the orderly conduct of international trade that "escape clause" actions and resulting tariff changes be held to a minimum, the Congress should (1) ensure that the criteria established do not permit such a volume of successful applications that U.S. firms are constantly confronted by changing U.S. import duties or the prospect of foreign retaliation against their exports, and (2) consider whether an adjustment assistance program for individual firms and communities cannot be devised that would provide the President with some alternative between the extension of import relief and taking no action to ameliorate the situation within a given industry.

The authority which would be given to the President to suspend the application of items 806.30 or 807.00 of the Tariff Schedules of the United States appears to us inappropriate in light of the range of authorities the President would have to increase import restrictions. While we realize that these provisions have been criticized, particularly by some segments of organized labor, a detailed study by the Tariff Commission in 1970 concluded that repeal of those items: (1) would *not* markedly reduce the volume of imports of the articles that now enter the United States under these provisions, (2) probably would result in an adverse effect on the U.S. balance of trade, and (3) probably would result in only a modest number of jobs being returned to the United States and these jobs likely would be more than offset by the loss of jobs among workers now producing components for export and those who further process the imported products. In view of the lack of evidence contrary to the Tariff Commission's conclusions, we think it would not be wise to consider this authority an appropriate form of import relief.

Trade Relations With Countries Not Enjoying Most-Favored-Nation Tariff Treatment

We endorse the provisions giving the President authority to extend most-favored-nation tariff treatment to Communist countries which presently do not enjoy such treatment. A substantial number of our member companies have entered into commercial relations with the Soviet Union and other countries in Eastern Europe and many others are actively exploring prospects for sales and other types of commercial arrangements there. These companies—as well as most other observers of the Eastern European economic scene—are of the opinion that the lack of most-favored-nation tariff treatment is at least a serious psychological obstacle to trade now and will become a more serious economic obstacle to broadening of commercial relations if the East European countries are unable to increase their earnings of dollars. Since the President's visit to the Soviet Union, significant momentum toward improvement of economic relations has been achieved. A series of commercial agreements and understandings have been reached between the United States and Soviet Union, U.S. industrial concerns have been permitted to establish offices in the Soviet Union, and substantial con-

tracts have been awarded to U.S. companies and more are being negotiated. It appears to us that if the U.S. fails to provide most-favored-nation treatment within a reasonable period of time, the current very positive attitude of the East European countries toward broadening commercial relations with the U.S. could diminish. Worse, our failure to act at this favorable time could well result again in discrimination on the Communist side against U.S. products in those situations where comparable products are obtainable in other countries.

We have the following additional comments concerning the provisions of the bill dealing with Communist countries:

—We believe it is prudent to have special "market disruption" provisions with respect to imports of these countries because of their trading practices in the past, the unusual difficulties in proving dumping or subsidization of exports by state controlled economies and our relative inexperience in trade with these countries.

—Repeal of the Johnson Act would remove the uncertainty which now applies to financing of transactions on other than normal commercial terms with respect to such matters as (1) what constitutes "normal commercial terms" for certain transactions such as some types of turn-key projects, and (2) the applicability of the law to U.S.-Soviet joint projects involving development of raw materials and other activities where financing might not be directly related to U.S. exports. Indeed, with what appear to be the limited prospects for increases in sales for most Soviet (and other East European) manufactured products in the United States, the projects involving the development of raw materials may offer the greatest promise for increased foreign exchange earnings by those countries which will be necessary in the long term to support an increase in their purchases of industrial products from the United States and other countries.

Generalized System of Preferences

We believe that, with the safeguards contained in the bill with respect to public hearings and advice from the Tariff Commission and other departments with respect to import-sensitive industries, the President should be empowered to extend preferences to imports from the less developed countries. While we have reservations about programs which attempt to divide the world along lines of developed and less developed areas and administration of a tariff preference system may prove to be difficult, we believe the effort should be made. Since preferences would not be extended to countries which extend "reverse preferences" to developed countries, the bill would provide the President with a measure of leverage in eliminating discrimination against U.S. exporters in those less developed areas, particularly the former colonial territories of European countries in Africa, which may become important U.S. export markets in the future. If this leverage can be used effectively and if we are able to reduce substantially the tariff and other import barriers of the EEC, perhaps we can reduce the adverse impact on the United States and other countries (e.g., those of Latin America) of these regional preferences.

Other Comments

There are other provisions of the bill on which our membership has less direct and immediate interest but on which we would also like to comment.

Relief From Unfair Trade Practices

—We support (1) the extension of the President's authority to retaliate against foreign import restrictions adversely affecting U.S. *nonagricultural* exports as well as agricultural exports, and (2) in principle the new authority to retaliate against foreign subsidies on sales to third markets which substantially reduce sales of competitive U.S. products to those markets. These additional authorities for the President hopefully will deter foreign countries from taking such actions which would unfairly hinder U.S. exports. However, in view of the fact that certain U.S. products, notably in the agricultural sector, benefit from subsidies, the authority to retaliate against foreign subsidies must be used with care. Although, as noted above, we support in principle authority to retaliate against foreign subsidies on sales to third markets, it appears to us that the exercise of this

authority might best be withheld until an attempt is made within the GATT to work out international ground rules as to permissible subsidies.

—We welcome the emphasis in the proposed amendments to the antidumping and countervailing duty laws on speeding up the resolution of cases. We believe this is in the interest of both importers and affected domestic producers. We also believe that the range of options which would be accorded the Secretary of the Treasury under the proposed amendments to the countervailing duty law would be a desirable change and could result in better use of that law to counter subsidies offered by foreign governments.

Balance of Payments Authority

We have mixed feelings concerning the provisions which would empower the President to temporarily impose import restrictions to correct a serious balance of payments deficit and to reduce import barriers to correct a balance of payments surplus. In recent years Presidents faced with emergencies involving our balance of payments position have taken actions of questionable legal validity and in some cases the actions are being challenged in the courts. Since these are indications that the President probably needs authority to act in emergencies, in our system of government we believe it is better that this authority be provided explicitly by law and its limits spelled out. It can also be argued that having this kind of authority would give the President bargaining leverage in international negotiations to seek a currency realignment or other concessions that may be needed to correct a trade imbalance. (For example, if such authority had existed in 1971, the President might not have needed to impose the import surcharge.) However, as drafted, the bill represents an extraordinary grant of authority and we are not in a position to say whether the definitions of "balance of payments deficit" and "balance of payments surplus" and the limitations on presidential action are adequate to ensure that the authority for import restrictions would be used only in balance of payments emergencies.

With respect to the proposed authority for correcting a balance of payments surplus, admittedly a prospect that seems remote at this time, we believe that the provisions permitting the President to exclude articles from tariff reductions or quota increases should be drafted so as to ensure that exclusions are made only when there is a prospect of injury to a domestic industry or for clear national security reasons. We also believe that it is unwise to leave these determinations solely with the President. While it probably would not be feasible to hold public hearings prior to taking such actions, we believe the exclusions should be determined by a nonpolitical body such as the Tariff Commission.

Authority To Suspend Import Barriers To Reduce Inflation

We believe that authority for the President to suspend or reduce import restrictions on articles "during a period of sustained or rapid price increases" could be a useful addition to the options available to a President to dampen inflation. As in the case of the balance of payments authority, we think the provisions should be drafted to ensure that economic considerations are paramount in their administration. Perhaps a "watch" system employing the resources of an organization outside of the Executive Branch could be used to identify these items, the supplies of which are "inadequate to meet domestic demand at reasonable prices" and to estimate the impact on domestic prices and the domestic industry of a reduction in import restrictions.

This concludes our statement on the proposed "Trade Reform Act of 1973." Our comments on the Administration's related tax proposals follow in a separate section.

IMPORTS AND EXPORTS AND IMPORT-EXPORT RATIOS [1] FOR MAJOR MACHINERY CATEGORIES, 1961–72

[Imports and exports in millions of dollars; ratios in percent]

	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
Machinery, total:												
Imports	629	738	834	1,089	1,486	2,202	2,563	3,035	3,565	4,271	4,742	6,245
Exports	4,694	5,080	5,312	6,121	6,589	7,297	7,803	8,309	9,519	11,015	11,168	12,735
Ratio	13.4	14.5	15.7	17.8	22.6	30.2	32.8	36.5	37.4	38.8	42.5	49.0
Engine, turbine, and parts:												
Imports	35	28	49	136	195	331	383	517	603	782	957	1,242
Exports	558	694	660	666	829	932	1,021	1,123	1,213	1,358	1,523	1,798
Ratio	6.3	4.0	7.4	20.4	23.5	35.5	37.5	46.0	49.7	58.0	62.8	69.1
Agricultural machines and tractors:												
Imports	115	152	172	195	249	325	341	322	345	348	360	497
Exports	541	558	644	826	860	860	843	873	917	931	875	1,075
Ratio	21.3	27.2	26.7	23.6	29.0	37.8	40.5	36.9	37.6	37.3	41.1	46.2
Office machines:												
Imports	75	85	98	104	136	191	225	256	372	505	566	700
Exports	310	324	362	434	471	557	707	747	1,051	1,547	1,521	1,623
Ratio	24.2	26.2	27.1	24.0	28.9	34.3	31.8	34.3	35.4	32.6	37.2	43.1
Metalworking machinery:												
Imports	34	41	48	40	63	135	203	204	183	164	107	140
Exports	391	435	347	408	332	338	339	334	343	396	405	410
Ratio	8.7	9.4	13.8	9.8	19.0	39.9	59.9	61.1	53.4	41.4	26.4	34.1
Textile and leather machinery:												
Imports	82	94	93	127	157	221	237	308	305	361	501	638
Exports	210	200	190	228	207	227	206	207	239	273	253	272
Ratio	39.0	47.0	48.9	55.7	75.8	97.4	115.0	148.8	127.6	132.2	198.0	234.6
Other nonelectrical machinery:												
Imports	114	140	175	269	360	474	574	673	814	943	1,012	1,324
Exports	1,732	1,876	2,006	2,298	2,573	2,864	3,065	3,276	3,697	4,181	4,202	4,693
Ratio	6.6	7.5	8.7	11.7	14.0	16.6	18.7	20.5	22.0	22.5	24.1	28.2
Power machinery and switchgear:												
Imports	28	25	22	41	67	105	133	168	196	247	263	356
Exports	255	264	326	356	472	488	510	531	562	611	679	787
Ratio	11.0	9.5	6.7	11.5	14.2	21.5	26.1	31.6	34.9	40.4	38.7	45.2
Other electrical apparatus:												
Imports	146	174	177	177	259	419	467	587	746	922	976	1,348
Exports	696	730	776	905	843	1,031	1,111	1,218	1,497	1,728	1,710	2,077
Ratio	21.0	23.8	22.8	19.6	30.7	40.6	42.0	48.2	49.8	53.4	57.1	64.9
Machinery—nonelectrical, total:												
Imports	455	540	635	871	1,160	1,677	1,963	2,280	2,622	3,103	3,503	4,541
Exports	3,743	4,087	4,209	4,860	5,274	5,778	6,181	6,560	7,460	8,686	8,779	9,871
Ratio	12.2	13.2	15.1	17.9	22.0	29.0	31.8	34.8	35.1	35.7	39.9	46.0
Electrical apparatus, total:												
Imports	174	199	199	218	326	524	600	755	942	1,169	1,239	1,704
Exports	951	994	1,102	1,261	1,315	1,519	1,621	1,749	2,059	2,339	2,389	2,864
Ratio	18.3	20.0	18.0	17.3	24.8	34.5	37.0	43.2	45.8	50.0	51.9	59.5

[1] Imports as a percentage of exports.

Note: "Other electrical apparatus" includes domestic electrical equipment, "Agricultural machines and tractors" includes all types of tractors in addition to farm tractors.

Source: U.S. Department of Commerce.

ADMINISTRATION PROPOSALS FOR TAX CHANGE: FOREIGN SOURCE INCOME

Having set out above our views on the proposed "Trade Reform Act of 1973," we turn now to the related subject of the Administration's proposals for changes in the tax law as it concerns foreign source income.

Our earlier statement to the Committee on March 6, 1973 dealt with a number of the major topics in tax reform, involving both U.S. and foreign source income, in which the Committee previously had indicated an interest. The specific tax proposals to which this statement is addressed were announced by the Administration on April 9, 1973 in connection with proposed legislation affecting foreign trade. They were reiterated in somewhat greater detail on April 30 when the Administration made its complete presentation of recommendations for tax change, and on June 11 in a supplemental Treasury release.

Very briefly, the Administration proposals in regard to U.S. taxation of foreign source income would (1) cause current U.S. taxation of the earnings, whether or not repatriated, of a "controlled" foreign manufacturing corporation which benefits from a tax holiday or other designated income-tax-related investment incentive; (2) bring about current taxation of the earnings—again whether or not repatriated—of a foreign manufacturing company which is manufacturing abroad for the sale of substantial amounts of its product to the United States and benefits from significantly lower foreign income tax rates; and (3) recapture certain foreign losses which have been used by U.S. taxpayers to offset other income taxable by the United States where the foreign losses are not taken into account by the foreign jurisdiction in later years. MAPI opposes the first two of these suggested tax changes—those concerning so-called "Foreign Tax Haven Manufacturing Companies" (FTHMCs)—but takes no position at this time with respect to the third recommendation.

We are concerned by (1) the FTHMC provision's unprecedented assertion of extraterritorial U.S. taxing jurisdiction affecting manufacturing operations; (2) the contemplated unilateral U.S. actions to neutralize, in regard to U.S. investors, foreign nations' investment incentives; (3) the questionable economic assumptions upon which portions of the recommendations proceed; (4) the conflicts of national policy regarding aid to less developed countries which seem implicit in the provisions; (5) the anti-investment, anticipatal movement, and higher-tax thrust of the proposals; and (6) the likelihood, as we see it, that neither the competitiveness of U.S.-owned companies, the amount of U.S. employment, nor the condition of this country's trade balance stands to benefit from exercise of the taxing authority which is sought. Ironically, we further note, the FTHMC provisions do not even appear capable of achieving in more than a minimal way their immediate objective of curtailing foreign investment subsidies to U.S. investors, despite the disruption to investment, the tax complication, and the consternation and inconvenience of all parties which they surely would entail.

For reasons hereinafter detailed, we respectfully urge the Committee to omit the Administration's FTHMC proposals from any tax reform measure which it plans to report. In the event the Committee determines to proceed with this current taxation scheme, we believe that some changes are in order to reduce their potential for inequity to U.S. investors and embarrassment to this country in its international tax and trade relationships.

The remainder of this statement, following a brief background discussion, is devoted to our general specific views regarding the Administration's two FTHMC recommendations.

BACKGROUND

The Current Taxation Issue in 1962

In 1961 and 1962, Congress reviewed in depth U.S. tax policy with respect to the taxation of foreign source income and concluded that it was generally appropriate to continue taxing the earnings of U.S.-controlled foreign corporations when distributed to their U.S. shareholders. Also, the Committee on Ways and Means reviewed at that time a general proposal to tax the *undistributed* income of foreign corporations to their U.S. shareholders. According to House Report No. 1447 (87th Congress, 2d Session, at pages 57–58, (1962)), the Committee determined as follows:

"Testimony in hearings before your Committee suggested that the location of investments in these countries is an important factor in stimulating American exports to the same areas. Moreover, it appeared that to impose the U.S. tax currently on the U.S. shareholders of American-owned businesses operating

abroad would place such firms at a disadvantage with other firms located in the same areas not subject to U.S. tax."

Despite this general conclusion, Congress felt that changes in the structure of the U.S. income tax should be made where the tax rules themselves created inequities or artificial distortions in investment decisions. Consequently, in 1962 Congress enacted a special rule for foreign source income of holding companies and certain selling and service subsidiaries operating in foreign "tax havens." In those situations, the U.S. income tax law was changed to tax "controlling" U.S. shareholders on the foreign source income when earned, whether or not remitted to them. Certain other changes were enacted to ensure that untaxed and undistributed profits of a controlled foreign corporation, whether or not operating in a tax haven, would not escape ordinary income tax as a result of a sale or liquidation to a foreign corporation.

The Present Approach

Under the U.S. income tax law as it exists today, a foreign corporation ordinarily is not taxed on income earned and retained outside the United States, whether or not that corporation is controlled by U.S. owners. However, when the income of such a corporation is distributed as a dividend to its U.S. shareholders, they are taxed here on the amounts they receive. To eliminate double taxation of the same income at the corporate level, corporate U.S. shareholders have a tax credit for foreign income taxes paid by the foreign corporation. The foreign tax credit cannot exceed the amount of tax due to the United States on the foreign income.

As mentioned above, there is a limited exception to the rule of U.S. taxation only upon repatriation which came into being in 1962. The subpart F provisions of the International Revenue Code permit current taxation of defined types of "passive income" of certain foreign subsidiaries incorporated in low-income tax jurisdictions and controlled by U.S. owners, whether or not the earnings have been repatriated. The subpart F rules run counter to the territorial concept of taxing jurisdiction, and there are few, if any, parallels to them in the income tax laws of other countries.

The results of the U.S. approach to taxing foreign source income—subpart F situations except—is that foreign subsidiaries of U.S. companies compete in world markets under roughly the same tax burdens as their foreign competition. As foreign corporations operating abroad, the subsidiaries pay tax abroad and not in the United States. When income is repatriated from a foreign subsidiary to the U.S. shareholders, it is taxed to the shareholders at regular U.S. tax rates, subject to a credit for foreign income taxes.

An Administration View of the System

In testimony on May 10, 1973 before the Committee, Mr. Frederic W. Hickman, Assistant Secretary of the Treasury for Tax Policy, evaluated the existing approach to taxation of foreign source income in the following words:

"Our present system of taxing foreign source income has on the whole served us well. It minimizes the intrusion of taxes into investment decisions. At present, a business can—and typically does—decide whether or not to invest in a particular foreign country on the basis of market and business factors knowing that it will be taxed in that country just as its local competitors are taxed.

"Thus the present system has maximized the responsiveness of investment to the forces of a free market. By being competitive abroad, American-owned foreign businesses have opened major new markets to American companies and have promoted exports, prosperity and jobs at home.

* * * * * * *

"We have three proposals for legislative change. They are advanced in the belief that our system is fair in its general application, but that in certain limited situations we need changes in our tax system to neutralize distortions in investment decisions and revenue collections caused by certain features of some foreign tax systems."

Summary of FTHMC Recommendations

As described by the Administration in its publication of April 30 dealing with tax change, the U.S. shareholders of 10 percent or more of a controlled foreign manufacturing corporation which either benefits from a tax holiday or similar tax incentive or which is manufacturing abroad for sale to the U.S. and benefits from significantly lower foreign income taxes would be taxed currently

on the earnings and profits of the corporation. The rules would apply to a controlled foreign corporation engaged in manufacturing or processing outside the U.S. only in years in which more than 10 percent of unadjusted basis of the tangible property and real estate of the corporation at any time during the taxable year is used in its manufacturing or processing operations.

As to *tax holidays*, current taxation would result where there is a new investment in a manufacturing or processing facility abroad after April 9, 1973, (or for a facility in existence on that date, there is or has been additional investment in excess of 20 percent) made while a tax holiday or other tax investment incentive was in effect with respect to the manufacturing or processing operations. The current taxation would apply to all future years in which the corporation is a manufacturing or processing corporation. Treasury would have broad authority to define tax investment incentives by, e.g., specific items or general categories, and it would include individually negotiated arrangements as well as those provided by law or regulations. A generally low rate tax rate in a country would not by itself be considered a tax incentive. Also, Treasury could exempt insignificant tax benefits, make determinations prospective in appropriate cases, and rule on the status of tax arrangements under which foreign investments are made.

In the matter of *"runaway plants,"* current taxation would occur where there is a new investment in a manufacturing or processing facility abroad after April 9, 1973 (or there is or has been more than 20 percent additional investment in an existing facility) and for the year in which current taxation is to apply the effective foreign tax rate applicable to the corporation is less than 80 percent of the U.S. tax rate and more than 25 percent of the corporation's gross receipts are realized from the manufacture of products destined for the U.S. The determination of current taxation in the so-called runaway plant situation would be a yearly affair. Also, the President could exempt companies in a particular industry from operation of the runway plant provision, if in the public interest.

There would be a separate limitation on the foreign tax credit so that income treated as distributed under these provisions of tax law would not be taken into account for purposes of the overall foreign tax credit computation but instead would be separately computed.

Discretion would be preserved in the Executive, subject to the Senate approval, to enter into bilateral income tax treaties making the foregoing rules inapplicable to specific incentives, in order to promote investment in appropriate situations and with appropriate safeguards.

COMMENTS ON THE FTHMC PROPOSALS: IN GENERAL

Our introductory remarks in this letter contained a summarized list of shortcomings of a general nature which the Institute finds in the FTHMC recommendations. These run the gamut from jurisdictional considerations and apparent conflicts of national policy to potential harm to U.S. investors. Each of the several conditions is discussed further at this point.

Taxing Jurisdiction

As a threshold item, we feel that the Committee should consider very seriously whether this country ought to be engaged further at this time in efforts to extend its extraterritorial taxing jurisdiction. Considerable recent testimony to the Committee on the subject of current taxation of unremitted foreign subsidiary earnings has indicated that other major trading nations generally have avoided that practice, and have abided by territorial concepts of taxation. In contrast, this country has already compromised the principle by enacting into law subpart F of the Code. Moreover, Congress intermittently entertains the idea of scuttling altogether the practice of deferring U.S. taxation on unrepatriated foreign subsidiary earnings.

If the Administration is somehow interested in tax harmonization among this country and its trading partners to eliminate tax considerations from investment decisions, then we are compelled to observe that a long and arduous path lies ahead. Furthermore, we doubt that cooperation in such an ambitious project would best be "encouraged" by U.S. threats, by unilateral action, to neutralize foreign tax incentives which could attract U.S. investors to countries they might not otherwise venture to enter.

Along those lines, we wish to emphasize that the Treasury Department is in fact asking Congress for authority to nullify as to U.S. investors any tax holi-

days or other designated income-tax-related investment incentives offered by foreign countries. Aside from the consequences for U.S. investors, it must recognized that exercise of the authority sought by the Executive Branch could thwart the efforts of foreign nations to attract U.S. investment which they consider essential to their economic development. The Committee will want to consider whether such an approach to international tax policy is really in this country's interest.

In the case of less developed countries, the FTHMC recommendations appear contrary in their tone to U.S. policies relating to aid to underdeveloped nations, some of which already exist in the federal tax structure—see, e.g., the Interest Equalization Tax, the Western Hemisphere Trade Corporation provisions, and sections of the Code governing computation of the foreign tax credit. Indeed, the FTHMC recommendations provide a curious if not dissonant counterpoint to Title VI of the Administration's Trade bill (H.R. 6767) which would authorize the Executive Branch to establish a generalized system of tariff preferences for less developed countries. We see no point in extending aid with one hand and withdrawing it with the other, and we trust that the Committee will give due attention to this matter of coordinaing policy.

Will the FTHMC Provisions Work?

In our opinion, the FTHMC provisions do not appear well designed to achieve their immediate objective, which is to discourage foreign inducements to U.S. investment. For one thing, the tax incentives to be named by the Treasury Department would be tax holidays or other income-tax-related investment incentives. Clearly, a foreign government could provide incentives to a U.S. investor which would have nothing to do with income taxes and, indeed, have nothing to do with taxes. Therefore, it would appear that the FTHMC provisions would simply rechannel the efforts of those foreign governments sufficiently interested in U.S. investment to find some way to subsidize the operations which are being sought.

We do not suggest that the FTHMC recommendations be broadened. Rather, we thing that the characteristic of the proposals just mentioned, coupled with other shortcomings, lends weight to the suggestion that the proposals be abandoned altogether.

A Long Step Toward Burke-Hartke

Treasury Department testimony to the Committee made much of the fact that the Administration does not agree with the tax provisions affecing foreign source income contained in H.R. 62, the celebrated Burke-Hartke trade bill. In some respects though, the FTHMC recommendations take a long step in the direction of several of the tax provisions in H.R. 62.

Paradoxically, the Administration has testified that it does not intend to inhibit foreign investment by the use of tax laws. Also, it has testified that current taxation would place U.S.-owned foreign subsidiaries at a disadvantage in competition with foreign-owned companies and other competing enterprises in foreign markets. Yet the FTHMC recommendations could lead to current taxation having precisely those consequences.

Abuse Situations?

The FTHMC recommendations are in part said to derive from a need to stem certain abuses involving foreign investment. For example, the "runaway plant" situation has been characterized as an abuse which costs jobs in this country. We question whether this is so.

We submit that a U.S. manufacturer who moves abroad for the principal purpose of exporting back into the U.S. market—to the extent that it happens—does so mainly as a matter of prudent supervision of the investment aimed ultimately, if not immediately, at survival of the enterprise. Logically, if the company could compete effectively in the U.S. market from a U.S. base, then it would do so rather than move its manufacturing operation some five or six thousand miles away from its principal market. We find a certain speciousness in the tax reform rhetoric which occasionally comes to our attention charging that companies "exported" jobs in cases where the only other feasible alternative to management was to terminate them and abandon an enterprise for all purposes.

In the case of a plant relocation to foreign shores, U.S. employment is at least continued for purposes of U.S. sourcing, distribution, and sales. In contrast, there is no direct benefit to domestic employment if the U.S. investor must totally relinquish his position in the domestic market to foreign competitors. If there is

any "abuse" on management's part in this type of situation, it would seem to lie in any failure on their part to recognize and adjust as best they can to those economic conditions which threaten the very existence of the company. (These same considerations apply, in our opinion, to the proposal in the Administration's trade bill with regard to Tariff Schedule items 806.30 and 807.00)

We should point out further that low foreign tax rates are only one factor in manufacturing abroad for export to the U.S. market rather than manufacturing at home, and they rarely are determinative. However, if the United States nullifies the tax advantage of manufacturing a particular country, it will to some extent interfere with the ability of the FTHMC to compete in the U.S. market. In fact, such action will interfere with the ability of FTHMCs to compete in either U.S. *or* foreign markets, including the jurisdiction in which an FTHMC is incorporated, against foreign-owned manufacturing subsidiaries which are *not* subject to current taxation of unremitted earnings.

Who Really Benefits?

As already suggested, the persons most certain to benefit from the FTHMC provisions would seem to be foreign-owned corporations manufacturing in areas having a low tax burden. To the extent that the U.S. Treasury Department interferes with the ability of U.S.-owned FTHMCs to compete in world markets, foreign-owned companies would seem likely to increase their market share, revenues and earnings, and manufacturing employment. Also, we would surmise from this, foreign nations' trade balances would seem more likely to be aided than would our own. Finally, foreign treasuries would enjoy some influx of new revenues triggered by withholding taxes on actual or constructive dividends of U.S.-owned FTHMCs made subject to current U.S. taxation.

Taxes and Foreign Investment

The FTHMC proposals seem to proceed from the notion that tax considerations were instrumental in decisions regarding foreign investment. In our opinion—to pursue a point brought up earlier—tax factors are immaterial to the vast majority of decisions to manufacture abroad even though they may surface in deciding on a jurisdiction in which to locate once the decision to go abroad is affirmative. Without repeating arguments which have been presented over and over again to the Committee on this point, we simply wish to confirm the comments of others to the effect that the decision to manufacture in a foreign country is primarily market-oriented.

In that connection, it has occurred to us that if Congress insists on proceeding with tax changes of this sort, it should consider providing a mechanism—perhaps an advance ruling device—whereby a taxpayer could demonstrate to the Internal Revenue Service that a manufacturing operation exists where it does (or will be organized there) for reasons no principal one of which is tax related. Such rulings should contemplate planned increases in investment over time without reopening the question of current taxation irrespective of subsequent changes in the foreign tax law, in order to allow U.S. investors to plan ahead with some measure of certainty. As the Committee is aware, advance ruling procedures have existed for some time under Code Section 367 for transfers abroad of property in connection with certain reorganizations. That is the type of ruling arrangement we have in mind.

The ruling procedure which we suggest would limit the FTHMC provisions to the situations they ostensibly are intended to correct, i.e., to those where tax inducements have caused distortions in investment decisions. We believe that Internal Revenue Service experience would show that relatively few such situations exist because tax considerations are just not that important in decisions to manufacture abroad rather than stateside.

Tax Simplification

We hope that neither the Committee nor the Administration will think us tedious for raising the subject of tax simplification, but it is one which everyone favoring tax reform appears to claim as one of its principal objectives. Not surprisingly, the Administration's proposals for tax change have a section devoted exclusively to tax simplification. Without prejudice to that particular item, we think it significant that the FTHMC provisions would be a very complex, new addition to this country's fiscal apparatus. It is foreseeable that there would be dozens of pages of complicated, new, income tax regulations to complement the dozens of pages which implement the existing provisions for current taxation under Code subpart F. Moreover, the FTHMC provisions would necessitate a

more extensive system than now exists within Treasury for monitoring the fiscal systems of foreign nations.

In our opinion, tax simplification is one of the yardsticks by which the FTHMC recommendations should be measured. As a number of our specific comments set forth in the appendix to this statement will indicate, the legal complexity and administrative burden to government and taxpayers already built into these proposals would necessarily be magnified by modifications which are essential in the interest of equity to U.S. taxpayers who would be affected by them.

Disruption to Investors

On the subject of disruption to investors, we note that implementation of the FTHMC proposals would proceed, according to the Administration plan, on a basis which would be largely discretionary with the Treasury Department. This raises a very practical issue. As the Committee is aware by now from its study of a "yo-yo" investment credit—so described by Chairman Mills in a May 30 speech on the floor of the House—investors need some certainty because an event such as sudden imposition of current taxation could cause a particular investment to become uneconomic. Very simply, "grandfather" and transitional provisions are necessary if taxpayers are not to be hurt by Treasury pronouncements which could not have been factored into investment decisions at the time they were made.

As proposed by the Administration, the FTHMC provisions do not in our opinion give adequate attention to the question of pre-existing investments and commitments, and we urge the Committee to direct its attention to "grandfather" and transitional arrangements if a decision is reached to adopt the FTHMC recommendations as part of a tax reform bill.

Considerations Beyond Revenue

One thing that disturbs us about the FTHMC proposals which relates to the scope of authority sought by the Executive Branch is the fact that their impact reaches well beyond revenue but they would nevertheless be administered by the Treasury Department.

As we view it, there are foreign trade, foreign aid, foreign relations, and assorted other considerations involved in any recommendations such as these which would allow unilateral nullification by the U.S. Treasury Department (as to U.S. investors) of another nation's fiscal policies. For that reason, it may be desirable to have consideration of the proposals not only by the tax-writing committees but also by the Foreign Relations Committees. Then, assuming some such law is to be enacted and given the impacts of the authority to be delegated, there is the further question whether Treasury alone, without obligation to consult with any other Department, should be the recipent of the authority delegated. We have no recommendation to offer, and simply raise the issue for the Committee's consideration.

A Final Note on the Subject of "Distortions"

The Treasury Department states that foreign tax investment incentives in combination with the U.S. tax system that does not tax the income of a foreign subsidiary until it is repatriated can lead to distortions in investment decisions. The Treasury Department has offered this viewpoint in partial justification of the FTHMC recommendations, and it has been presented almost as if it were self-evident. We think that it deserves at least brief mention because certain implications which flow from it could be misleading.

The point we wish to make is that a U.S. investor going into a foreign country knows full well that he cannot simply "bail out" when the tax holiday or other investment incentive expires. Also, he is likely to know with considerable accuracy the incremental value to his operation of the subsidy which he will receive. Accordingly, it follows that his decision to locate in a particular jurisdiction necessarily takes into consideration the likelihood of being able to survive in the normal tax and trade climate which will apply to his investment after the period of government subsidization. Moreover, it is entirely reasonable to assume that the U.S. investor would not proceed with his project unless he were relatively certain that he could survive under the customary rules applicable to established businesses of his type.

This simple fact of business life somehow becomes lost in the loose jargon of "distortions," "tax havens," and "abuses," which permeate the FTHMC recommendations. It seems to us that investment distortions are much more likely to result from the continued threat of extraterritorial U.S. tax levies than from

the quantifiable tax incentives to investment which are the target of the Administration's proposals.

As a final general observation, we suggest that the FTHMC proposals are so strict that they would lead to current taxation of unremitted foreign subsidiary earnings for many companies under circumstances that, in our opinion, are not abuses and do not involve distortions. Further, there are aspects of the proposed application which seem plainly unfair. If they are to be adopted, some adjustments are in order.

Without departing in any way from our position of general opposition to the Administration's FTHMC recommendations, but recognizing the possibility that Congress may nevertheless legislate in this area, we attach as an Appendix our specific recommendations for refinement of these proposals if they are to become law.

We greatly appreciate this opportunity to express our views on the proposed "Trade Reform Act of 1973" and the Administration's recommendations concerning U.S. taxation of foreign source income.

Respectfully,

CHARLES W. STEWART,
President.

Attachment.

[Appendix]

SPECIFIC RECOMMENDATIONS ON ADMINISTERING PROPOSALS CONCERNING TAXATION OF FOREIGN SOURCE INCOME

ITEMS COMMON TO BOTH THE "TAX HOLIDAY" AND "RUNAWAY PLANT" PROVISIONS

Manufacturing threshold.—A controlled foreign corporation would be regarded as being engaged in manufacturing or processing operations for purposes of the FTHMC provisions if, at any time during the taxable year, the unadjusted basis of tangible property and real property used in its manufacturing or processing operations exceeds 10 percent of the unadjusted basis of all tangible property and real property of the corporation as of that time.

We question, first, why the Administration has proposed to set the manufacturing threshold at 10 percent of the tangible property and real estate and, second, why it has proposed that this test be met if the 10 percent is exceeded "at any time during the taxable year." For one thing, the 10 percent figure seems unrealistically low when it is considered that the investment in manufacturing or processing activity alone could lead to taxation of *all* the company's earnings and profits. The 10 percent test should be raised substantially and any current taxation should be limited to the earnings and profits generated by the manufacturing and processing. As offered, the provision seems certain to encourage separate incorporation of non-manufacturing activities, leading perhaps to a great proliferation of separate foreign business entities which more efficiently—from IRS *and* management's point of view—be under a single roof.

As to having the 10 percent test apply "at any time" during the taxable year, we can quite easily think of situations where this extreme interpretation would be unfair to the U.S. investor and its foreign manufacturing operation. To demonstrate the problem in bold relief, a corporation might have manufacturing assets representing 11 percent of the unadjusted basis of its total tangible and real property during only a single day of the taxable year, with a much smaller percentage on the remaining 364 days of the year because of acquisitions, divestitures, property transactions, etc. We believe the Administration would be stretching matters to call for current taxation of unrepatriated FTHMC earnings in such a case, even assuming the other tests were met. This point concerning the one day in the year on which the company's manufacturing assets exceed the established threshold applies with equal validity whatever the percentage threshold set for manufacturing, whether it be 10, 20, or 50 percent or some other amount.

In a word, any FTHMC rule ought to have realistic thresholds and should not grasp at *de minimis* situations.

Limited assembly.—The Administration's proposals, in regard to "manufacturing and processing," do not say anything about limited assembly work. In our opinion, "manufacturing and processing" should not include limited assembly, and we would point out that the Domestic International Sales Corporation provisions of the Code provide a precedent for that distinction inasmuch as a DISC can engage in limited assembly but not in manufacture.

The foreign tax credit.—The FTHMC proposals would prevent a U.S. shareholder from using an excess foreign tax credit to offset its U.S. tax liability on the income currently taxed to it under the new rules. As the Committee is aware, many manufacturing companies elect to use the overall foreign tax credit limitation, and not a few of them generate from time to time excess foreign tax credit carryovers which they then try to absorb, if possible, before they expire. The relatively low taxed FTHMC income would help but the Administration evidently feels that the effects of current taxation would not be appropriately felt if the current U.S. tax on FTHMC income were absorbed in some measure by excess credits.

This appears to us to be contrary to the principle of allowing offsets under the overall foreign tax credit limitation, and providing carrybacks and carryforwards to permit some flexibility with a fluctuating income tax burden. Accordingly, we object to this effort to compromise the overall limitation.

THE FTHMC TAX HOLIDAY PROPOSAL

Non-U.S.-type incentives.—According to the Administration, examples of benefits or practices of the type which constitute investment incentives include tax holidays (which are partial or complete exemptions from tax for a period of time); deductions for reinvestment reserves; "certain grants," and certain depreciation rules bearing no relationship to useful life.

As the Committee is aware, the U.S. tax system offers such investment incentives as the investment tax credit, the Domestic International Sales Corporation rules, rapid amortization of specified facilities, special treatment of capital gains, and assorted state and local investment incentives. Arguably, the Treasury Department should be restricted in its designation of foreign incentives to those which are not paralleled in U.S. tax law or, more accurately, should designate only those which exceed—by some measure—the ones provided by U.S. (including state and local) tax law. Put another way, this country ought perhaps to refrain from neutralizing the effects of other nation's investment tax incentives on U.S. investors in those instances where it intends to hold out similar inducements to foreign investors. (It is our understanding from Treasury's announcement of June 11 that the Administration now accepts this proposition.)

The Committee will recognize immediately that this suggestion, however logical, would be rather difficult to administer. It presumes that there is some way to equate or compare U.S. and foreign fiscal systems for purposes of administering fairly and uniformly the FTHMC recommendations with respect to tax incentives, and that, we venture to say, is no small order. Complication, however, will be the price all persons pay for equity in the FTHMC provisions if the Committee adopts them.

Replacements.—A corporation would be considered a FTHMC if the new investment, or any investment in excess of a 20 percent increase (for an existing facility), was made during or in anticipation of any taxable year for which a foreign tax investment incentive was allowed or allowable. As we understand this, the test of new or additional investment after April 9 would include replacements to existing facilities, and that is a point to which we take exception. To exclude replacements for existing facilities would necessitate some type of grandfather clause in the law, and we think that it would be justifiable on grounds that the original investment decisions could not have anticipated such costs as would result from the imposition of current U.S. taxation at a later date.

We note further that the Treasury Department would find the existence of an FTHMC where the new or increased investment occurred during any taxable year for which a foreign tax investment incentive was "allowable." This suggests that the Treasury Department would impose current taxation even where a corporation elected not to take advantage of the incentive. This seems to us unfair, and we question whether it is necessary in view of other provisions relating to investments "in anticipation of" tax breaks.

Reinvested earnings.—The source of new or additional investment could be new capital or reinvested earnings. This raises another "grandfather" consideration. We think that a sound case can be made to the effect that reinvested earnings should not be counted as "new or additional investment" inasmuch as the decision to do business in the jurisdiction in question did not contemplate current U.S. taxation of the earnings and the retention of earnings does not represent capital (or employment) outflow from this country in response to foreign incentives after the effective date of the FTHMC provision.

We realize that this suggestion implies two classes of U.S. investor abroad, one subject to and one not subject to the FTHMC rules. That, in itself, is not desirable other than on an interim basis. Accordingly, the Committee may wish to design a grandfather provision which would phase out over a period of time sufficient for pre-FTHMC U.S. investors abroad to adjust to the new regime.

The 20 percent test.—As we see it, the 20 percent test of additional investment is so low that it virtually assures current taxation of unrepatriated foreign subsidiary earnings in many if not most situations reached by the FTHMC proposals relating to tax incentives. As already noted, the test is tied to the unadjusted basis of tangible property and real estate used in manufacturing and processing on April 9, 1973.

It seems to us that inflation coupled with normal replacement and maintenance spending would reach 20 percent of unadjusted basis fairly quickly—not to mention any *new* investment. Under the proposal, the added investment of more than 20 percent would have to occur while the tax incentive is in effect in order to trigger current taxation but the fact remains that many countries have these incentives in effect more or less continuously. Tax holidays alone normally last long enough to make the 20 percent practically certain to be attained.

We think the Committee might more realistically consider a test of cumulative added investment in excess of 50 percent. Better still, the 20 percent test could be applied annually rather than cumulatively and be used only after adjustments to the figures by some type of local price deflator.

What is an incentive?—Treasury would be given, under the Administration's proposals, broad authority to define income-tax-related investment incentives for purposes of the tax holiday rule. The incentives could include almost any encouragement to investment in a foreign country even if it is granted to nationals as well as foreigners.

We think it relevant for the Committee to ask what an incentive is, and to define the Administration's proposed authority in terms of situations which fit the rationale of the FTHMC recommendations. For one thing, it may be that "incentives" should exclude investment inducements which are available to foreign nationals as well as U.S. investors. Secondly, it occurs to us that if an incentive is essentially a *quid pro quo* (as opposed to a bonus) for the investor's agreement to invest, say, for the first time in an otherwise undesirable area, then perhaps that too should be excluded.

Increased investment: plant or overall basis.—Reverting to the more-than-20 percent "increased investment" test, the Administration's proposals state that the percentage would be determined by comparing increased investment in assets of the corporation's entire manufacturing or processing operations or in assets of a single plant or production unit which lends itself to separate treatment. If the test were met for a single plant, the entire corporation would suffer current taxation.

In this instance, the Administration appears to be straining for authority of such dimension that current taxation could be administered on a punitive basis. This proposal is harsh on its face, and we urge that the scales be balanced by giving the option of a plant or "overall" treatment for purposes of this test to the taxpayer. Also, it seems to us, that current taxation ought logically to apply only to the earnings of the plant found to have met the 20 percent increased investment test, if the determination is to be made on a plant basis. Indeed, it would seem that current taxation should apply only to the portion of the plant's earnings attributable to the increment of additional investment which is in excess of 20 percent.

Indefinite current taxation.—If current taxation is triggered under the tax holiday provision, under the Administration proposal, it would remain in effect forever, even after the incentive expires, unless the corporation ceases to be engaged in manufacturing or processing.

This seems unreasonable to us, and we urge that the Committee consider provisions which would cause the current taxation to stop when the incentive stops. Again, we recognize the administrative complications. However, the interest of government in tax equity is overriding, and there is no justification of which we are aware for continuing current taxation into perpetuity.

Leased property and contributions to capital.—Returning for a moment to the 10 percent test of being "engaged in manufacturing or processing," we observe that the Administration has not indicated how it proposes to value property which is leased. We presume that the method would be to discount future rent payments and, given the great variety of forms taken by lease agreements, we can imagine

that there would be complication in implementation and compliance. In any event, the subject of lease valuation should be covered in our opinion.

Where property is acquired by a contribution to capital, its "cost" would be considered to be the fair market value on the date of contribution. We recognize that Treasury would not want the cost to be the transferor's basis as, for example, in a Code Section 351 transfer because the adjusted basis probably would be less than market value. However, elimination of fair market value determinations by transfer of basis for "cost" purposes would be one way to simplify administration.

Acquisition of stock.—According to the proposals, the acquisition of stock of an existing foreign corporation is to be treated as a new investment in determining the status of that newly acquired corporation. Suppose, though, a U.S. owner of two manufacturing corporations situated in a foreign country which offers investment incentives were to decide to merge them into a single entity. The Administration seems to suggest that, even in the absence of any new investment in either operation, the U.S. parent company accomplishing the merger of its subsidiaries would become subject to current taxation.

If our reading is correct, we object to such a provision, and urge the Committee to provide that changes of form alone will not be considered new investment.

The FTHMC "Runaway Plant" Proposal

Substantial production for export.—According to the proposals, a runaway plant will have "substantial production for export to the United States" if 25 percent of its gross receipts for the year are realized from the manufacture or processing of property which is sold or leased for utimate use, consumption, or disposition within the United States.

In our opinion it is highly unlikely that a plant would "run away" from the United States for the principal purpose of serving the U.S. market, and then export only 25 percent of its output to this country. If the "runaway" excuse for current taxation is to have any plausibility, the export requirement should, we think, be at least 50 percent.

Ultimate use.—As just noted, the key to current taxation for so-called runaway plants is the fact of a certain amount of gross receipts being realized from the manufacture of property sold or leased for ultimate use within the United States. The Administration does not explore the test of ultimate use in its proposals, but we think it deserves study.

Consider, for example, the situation of a U.S.-owned foreign manufacturing company which sells electronic components to unrelated foreign manufacturers of, say, portable radios, for distribution to customers throughout the world. The problem of determining ultimate use becomes quite plain. For one thing, the foreign manufacturer of the component may not know the extent to which its foreign customer uses the components in products destined for the United States. Further, the information may be confidential, in which case the component manufacturer simply could not obtain it.

We suggest that it is one thing to apply this test to a U.S.-controlled FTHMC which itself sells directly back into the U.S. market and it is quite another thing where the FTHMC sells to unrelated foreign organizations which, in turn, incorporate an item in a larger end product which is then distributed to markets throughout the world. We urge the Committee to consider exempting this latter type of operation or, at least, to take appropriate action to simplify the foreseeable compliance burden.

Statement of Edward W. Stimpson, President, General Aviation Manufacturers Association

The General Aviation Manufacturers Association, which represents thirty companies involved in the manufacture of general aviation airframes, engines, avionics, and aircraft component parts, appreciates the opportunity to comment upon HR 6767, the Trade Reform Act of 1973. The members of GAMA produce 99 percent of the general aviation aircraft manufactured in the United States. A list of our membership is attached.

CONTRIBUTION OF GENERAL AVIATION TO WORLD MARKET

Currently, 85 percent of the free-world general aviation fleet has been manufactured in the United States. Historically, about 25 percent of the total United

States general aviation production has been exported. Since 1965, this has amounted to 21,289 aircraft and over $800 million. It is anticipated that in 1973 more than 3,000 aircraft, with delivery value of $180 million, will be exported.

General aviation exports have made a very positive contribution to the United States balance of payments. This year, we anticipate that approximately 500 foreign-built aircraft will be imported into the United States. Consequently, general aviation exports hold approximately a six-to-one balance over imports.

The general aviation industry has been able to operate successfully in a relatively free and open world trade market. If we are to continue to be successful in marketing general aviation products abroad, it is imperative that this environment be maintained.

RECOMMENDATIONS

The General Aviation Manufacturers Association strongly supports the President's request for negotiating authority on tariff and non-tariff barriers. We recommend the total elimination of duties on all general aviation products, both foreign and domestic, on a reciprocal basis, with all other nations who impose tariffs. This action would involve the removal of the current 5 percent duty that the U.S. places on imported aircraft and aviation products from nations having a most-favored-nation status.

In recent months, non-tariff barriers have become increasingly more significant in marketing general aviation products abroad. When applied to general aviation products, non-tariff barriers take several forms. For example, the certification of products in foreign countries often involves time-consuming and costly delays. Despite the fact that an aircraft engine or component may be fully certified and deemed safe by the United States FAA, a foreign government may require additional extensive engineering, testing, and modification. Although a certificate may be granted, import permits are difficult to obtain as many countries attempt to protect their domestic aircraft manufacturing industry. In addition, increasing demands are being placed on U.S. manufacturers to either assemble the product or manufacture parts of the product in the importing country. This requirement may add considerably to the cost of the product. Consequently, we strongly support the elimination of non-tariff barriers that restrict trade and marketing opportunities. The authority contained in HR 6767 should be very useful in achieving this objective.

General aviation manufacturers are pleased to note that new market areas are emerging in eastern Europe and China. In order to compete effectively in these areas, most-favored-nation status is a necessity. We believe the President should be authorized, by statute, to grant most-favored-nation status to these new market areas consistent with acceptable negotiations assuring open-door trade policies.

SUMMARY

The Trade Reform Act is a positive step toward maintaining U.S. leadership in world trade. We believe the intent of the Bill is sound, and will help open world markets as well as maintain the competitive position of the United States general aviation industry.

(Enclosure.)

LIST OF THIRTY GAMA MEMBER COMPANIES

Avco Corporation, Williamsport, Pennsylvania
Beech Aircraft Corporation, Wichita, Kansas
Bellanca Aircraft Corp., Alexandria Michigan
The Bendix Corporation, Southfield, Michigan
Cessna Aircraft Company, Wichita, Kansas
Collins Radio Company, Cedar Rapids, Iowa
Edo-Aire Division-Edo Corporation, Fairfield, New Jersey
The Garrett Corporation, Los Angeles, California
Gates Learjet Corporation, Wichita, Kansas
Grumman American Aviation Corp., Cleveland, Ohio
King Radio Corporation, Olathe, Kansas
NARCO Scientific Industries, Fort Washington, Pennsylvania
Piper Aircraft Corporation, Lock Haven, Pennsylvania
RCA, Van Nuys, California
Rockwell International Corporation, Bethany, Oklahoma
The Singer Company, Aerospace & Marine Systems Group, New York, New York
Sperry Rand Corporation, Phoenix, Arizona

Teledyne Continental Motors, Warren, Michigan
United Aircraft Corporation, Longeuil, P.Q., Canada
Aero Products Research, Inc., Los Angeles, California
Analog Training Computers, Inc., West Long Branch, New Jersey
Champion Spark Plug Company, Toledo, Ohio
Elano Corporation, Xenia, Ohio
Flite-Tronics, Co., Inc., Burbank, California
Jeppesen & Co., Denver, Colorado
Lord Corporation, Erie, Pennsylvania
Northrop Airport Development Corp., Vienna, Virginia
Oberdorfer Foundries, Inc., Syracuse, New York
Pacific Scientific Company, Aneheim, California
PPG industries, Inc., Huntsville, Alabama

NATIONAL OCEAN INDUSTRIES ASSOCIATION,
Washington, D.C. June 20, 1973.

Hon. WILBUR D. MILLS,
Committee on Ways and Means,
U.S. House of Representatives,
Washington, D.C.

DEAR MR. CHAIRMAN: The National Ocean Industries Association has a sincere interest in and concern about the proposals presently pending before the Ways and Means Committee relative to the Administration's Trade Reform Act. The interest is in favorable consideration of the tariff and trade aspects of the proposal because we feel there are justifications for some of the reforms suggested in the present trade programs. However, the concern is about proposals to include in the bill sections dealing with changes in current tax policies relating to foreign source income.

The attached statement has been prepared to express the association's position on these issues. Because of your committee's conscientious effort to hear all the witnesses desiring to present oral statements on the Trade Reform Act, the hearings have been very time consuming on the members and committee staff. In order to conserve a part of the committee's time, NOIA did not request time for an oral presentation. We would, therefore, respectfully ask that this letter and attached statement be printed as a part of the hearing record on the Trade Reform Act of 1973.

Sincerely yours,

CHARLES D. MATTHEWS, *President.*

(Attachment.)

STATEMENT OF CHARLES D. MATTHEWS, PRESIDENT, NATIONAL OCEAN INDUSTRIES ASSOCIATION

Mr. Chairman and members of the committee, my name is Charles D. Matthews. I am president of the National Ocean Industries Association—a Washington based trade association organized to serve as the legislative and administrative spokesman of the offshore and ocean oriented industries at the federal level. Our membership is made up particularly of (1) air and marine transport companies, (2) drilling contractors, (3) equipment suppliers, (4) gas transmission companies, (5) geophysical contractors, (6) offshore construction companies, (7) petroleum producers, (8) service companies, (9) shipyards, and (10) others.

The two categories—service and others—include the thousands of small businesses sometimes overlooked or disregarded whenever national policy or other decisions are made. These categories include such activities as divers, consultants, insurance agents, journalists, lawyers, commercial diving schools, lubrication specialists, painters, data specialists, oceanographic instrumentation experts, to name few. We have members in 19 states—from Alaska, down the West Coast, around the Gulf of Mexico, up the Atlantic Coast, and across the mid-continent area.

All of NOIA's members have an interest in the proposals to reform the United States government's present policies and programs relating to world trade and tariffs which are the subject of these hearings. Our members share a common interest in meeting our nation's growing energy demands through the development of more stable sources of foreign fuel resources.

We favor enactment of a trade bill to contribute significantly toward correcting some of the inequities that may have arisen over the years as a result of so many shifts in economic and political affairs. There have, however, been some proposals advocated before this committee which would attempt to solve our country's economic problems by imposing sweeping new import controls. Proponants of this kind of trade policy claim to have as their purpose the "protection" of American industry and labor from the rigors of international competition. Well intentioned as these advocates may be, such import restrictions, in our view, would not improve the nation's economic conditions; but, rather, would seriously aggravate current economic ills. Although the stated intent of such restrictions is to increase U.S. employment, the opposite result is more likely to occur so far as the ocean industries are concerned.

Many of the same proponants of increased import restrictions have also suggested that U.S. foreign investments—particularly manufacturing investments—result in job losses in the United States. These arguments should not apply to industries engaged in supporting or servicing mineral production abroad, because it should be recognized such investments and activities must be made where the resources are to be extracted. Natural resources know no national boundaries. Petroleum is where you find it, and where you find it is determined by geological and geophysical selectivity and capital risk. Development is determined by the economics of each prospect, not by political act; however, such determination can be negated by political risk. The offshore and ocean-oriented companies do not make their overseas investments because of tax advantages. Present U.S. tax laws regarding foreign source income simply permit U.S. offshore companies to compete with foreign offshore companies on reasonably equal terms from the standpoint of taxation.

With respect to manufacturing industries, it is alleged that production abroad by U.S. companies substitutes for U.S. production and employment, and that the markets supplied by production abroad could alternatively be supplied from the production of plants in the United States. This assertion is not supported by the facts in so far as industries manufacturing most equipment for offshore mineral development are concerned.

In general, U.S. companies would not be interested in taking all the risks involved in making foreign investments if those foreign markets could be supplied economically by investments in the United States. Competitive cost conditions, including transportation, access to lower-cost materials, and foreign barriers to U.S. exports may sometimes require foreign investment. If U.S. companies did not respond to such investment requirements, competing foreign companies would certainly do so before long.

To the Members of the National Ocean Industries Association which operate in overseas areas, proposals to restrict the ability to make profitable foreign investments would severely weaken their overseas position in the face of vigorous foreign competition. At a time when almost every thoughtful person recognizes the nation's need for energy will significantly exceed the supply for the foreseeable future and when the U.S. must enlarge its importation of crude oil and natural gas to meet these needs, and U.S. leadership in finding and developing new sources of petroleum should, therefore, be encouraged. Any tax proposals which would limit investments could cause many companies to withdraw from further foreign activities and cause them to sell off foreign investments now held. Also inclusion of such tax proposals in the Trade Reform Act would aggravate rather than help U.S. unemployment since the divestiture of existing assets to foreign capital could cause a shift from Americans to foreign nationals in a labor market now dominated by Americans. Further, the outstanding future growth prospects of jobs for Americans in these ocean industries and jobs in industries in the U.S. building offshore equipment for export would be virtually nullified by the the proposals.

U.S. industries have been the historical leaders in this kind of ocean development, but adequate foreign private and government capital, technological skill, and labor are now available to substantially replace U.S. investment in the discovery, development, and ownership of oil and gas reserves around the world, including those located in offshore areas; if this should be required by ill-conceived laws or policies which would force U.S. companies out of the field. Let there be no doubt about it, foreign energy reserves will be discovered and developed regardless of the position of U.S. companies and their ability to make foreign investments. No material patent position or proprietary technology gives U.S. companies a monopoly over offshore activities. On the contrary, every seg-

ment of this industry is faced today with vigorous competition from foreign companies which are rapidly gaining an equal footing with their U.S. counterparts in terms of competence, costs of operation, and taxes.

The U.S. offshore service industry is still in its youthful stage—being only about 25 years old and its substantial growth did not begin until the 1960's. Today, it employs a total of 4,000 U.S. citizens who are based overseas in foreign operations with another 1,500 persons largely associated with foreign operations employed in the United States. A substantial portion of the total number of these jobs in all phases of operation and management have been newly created in the last decade. The current demnd for qualified offshore personnel is extremely high. With $4.3 billion of vessels and equipment in operation and having $2 billion of new vessels and equipment under construction, the offshore industry faces the dilemma of not having enough qualified men to man and operate such vessels and equipment. The industry estimates an additional 1,600 jobs will be created for U.S. nationals at home and abroad in direct association with new capital commitments. A substantial number of other jobs will also be created with the shipyards, steel mills, engine manufacturers, electronics equipment producers, and other suppliers for the construction of offshore equipment.

To include taxation proposals similar to those offered by some of the labor unions in new legislation on trade reform would not achieve job expansion as far as the offshore and ocean-oriented industries are concerned; on the contrary, the serious disruption of American investments aboard—old as well as new—would eliminate thousands of existing jobs for Americans and seriously undermine the enormous job-creating potential of these industries in the next decade and beyond.

Mr. Chairman, we believe the Committee should evaluate any possible changes in U.S. tax policy toward foreign operations of companies related to energy supply operations in the light of the importance of those operations to the U.S. national interest. If privately-owned U.S. companies are rendered incapable of competing effectively in this area with foreign companies, this nation would then become largely dependent for essential imported energy supplies on foreign companies, owned in whole or in large part by foreign governments which are not always friendly or even politically stable. In such an event, there could be no assurance of even-handed treatment of all countries in the event of an energy supply crisis. Several of the Arab leaders are already talking of using oil diplomacy to force their will on this government. Companies owned by producing country governments have an obvious advantage in access to supplies. Companies owned by governments or private citizens in foreign consuming countries receive a wide variety of special tax and non-tax incentives for energy operations abroad which are at least as valuable as the tax treatment currently provided by the United States.

Another national problem, while not on the same level of importance as the problem of total energy supply, relates to this nation's continuing and enlarging deficits in our international balance of payments. It seems reasonable to NOIA that the Ways and Means Committee—and indeed the Congress—should approve legislation to help alleviate the unfavorable balance of payments problem rather than exacerbating it. The contribution made by the foreign operation of the companies in the offshore and ocean-oriented industries has helped to keep the trade deficit from being even larger than it is and can help even more in the years ahead.

For example, for the first time, in 1971 American companies spent more money on the search for petroleum outside rather than inside the United States. Their outlay for exploration, production, and pipelines offshore in foreign areas amounted to approximately $1.46 billion. The American offshore service companies owns offshore drilling rigs, marine construction equipment, and marine service vessels costing almost $2.5 billion and are growing rapidly. Controlled foreign subsidiaries of these companies today own in excess of $1.74 billion in foreign-based capital equipment, and approximately 60 percent of these assets or equipment was constructed in the United States and exported. An additional $856 million in capital equipment is now under construction by U.S.-controlled foreign subsidiaries, with almost 68 percent being built in the U.S. for xeport. To the limited extent major items of capital equipment for this industry have been constructed overseas most of the component parts have been purchased in the U.S. In addition, most of the replacement parts which are purchased for offshore equipment being operated overseas and the general expenditures made for labor and material in connection with day to day foreign operations are bought and paid for in the United States.

Therefore, the offshore service industry is a striking illustration of the fact that U.S. participation in economic activities abroad helps maintain our exports of capital goods, component parts, and finished goods sold in conjunction with goods produced abroad and increases employment in export industries over what would exist otherwise.

It is averred by labor that if the tax credit or tax deferral were eliminated, foreign-based offshore service assets would be returned to the United States to operate. This is not true and there are two very important factors which effectively refute that claim:

(1) the market in the U.S. can never be large enough to absorb all the vessels and equipment involved; and

(2) the cost of traversing the open oceans to return much of the offshore equipment is so expensive as to make moves to U.S. waters economically unfeasible.

Therefore, if the Ways and Means Committee adopts these tax provisions in the trade bill, American offshore service companies would be forced to dispose of much of their foreign investments to foreign ownership. With the rising demand for petroleum and the interest in offshore investment which has been generated in European capital markets and elsewhere, foreign ownership would take advantage of the opportunities which would be afforded to invest in the offshore service industry. Foreign owners would shift to foreign-built capital equipment for expansion and foreign goods and labor for operations. Finally, national security would diminish as control of equipment necessary to produce supplies of needed petroleum passed out of the hands of U.S.-owned companies.

ADMINISTRATION PROPOSALS FOR TAX CHANGE

Having briefly discussed a few general views on several proposals previously suggested on imports and taxation of foreign source income, we now turn to the specific tax proposals announced by the Administration on April 9, 1973, in connection with the proposed legislation affecting foreign trade.

In summary, the Administration proposals in regard to U.S. taxation of foreign source income would (1) cause current U.S. taxation of the earnings, whether or not repatriated, of a "controlled" foreign manufacturing corporation which benefits from a "tax holiday" or other designated income-tax-related investment incentive; (2) bring about current taxation of the earnings—again whether or not repatriated—of a foreign manufacturing company which is manufacturing abroad for the sale of substantial amounts of its product to the United States and benefits from significantly lower foreign income tax rates—"runaway plants;" and (3) to offset other income taxable by the United States where the foreign losses are not taken into account by the foreign jurisdiction in later years.

The first two of the Administration's proposals are closely related:

(1) *"Tax Holiday:"* Current taxation would result where there is a new investment in a manufacturing or processing facility abroad after April 9, 1973, (or, for a facility in existence on that date, there is or has been additional investment in exceess of 20 percent) made while a tax holiday or other tax investment incentive was in effect with respect to the manufacturing or processing operations. The current taxation would apply to all future years in which the corporation is a manufacturing or processing corporation. Treasury would have broad authority to define what would constitute tax investment incentives, and it would include individually negotiated arrangements as well as those provided by law or regulations. Treasury could, however, exempt insignificant tax benefits, make determinations prospective in appropriate cases, and rule on the status of tax arrangements under which foreign investments are made.

(2) *"Runaway Plants:"* Current taxation would be applied on a yearly basis where there is a new investment in a manufacturing or processing facility abroad after April 9, 1973, (or there is or has been more than 20 percent additional investment in an existing facility) if the effective foreign tax rate applicable to the corporation is less than 80 percent of the U.S. tax rate and if more than 25 percent of the corporation's gross receipts are realized from the manufacture of products exported to the U.S. The President could exempt companies in a particular industry from operation of the "runaway plant" provision, if in the public interest.

These two proposals would not affect the foreign competitors of the U.S. subsidiaries abroad, since we know of no country which taxes currently the earnings of non-resident foreign subsidiaries of their corporations. Thus, these

foreign-owned companies should be expected to gain a substantial—and, in the case of foreign "tax holidays," an overwhelming—competitive edge over their U.S. counterparts in the countries affected. Moreover, if it is attractive to export to the United States from these countries, foreign-owned companies are likely to do so.

Concerning the relevance of such proposals to the offshore and ocean-oriented industries servicing and supporting worldwide exploration, development, and production of badly needed energy supplies; let us repeat again, it is clear that investments in such activities must occur where the resources are likely to be found. Refineries serving the U.S. market may be located offshore for a number of reasons such as, host government requirements, environmental considerations, not merely because of tax considerations. Indeed, U.S. companies in general do not invest abroad because of tax considerations.

Some of the Treasury statements attempt to characterize the "tax holiday" and the "runaway plant" proposals as having a fairly narrow application. However, a careful reading of the subsequent "detailed statement" of June 11, 1973, reveals a very broad and far-reaching proposal. It it possible that general tax incentives for investment similar to those provided in the U.S. tax system might qualify as "tax holidays" and result in current taxation? If this is the case, the "tax holiday" test would be so all inclusive as to render the "runaway plant" test unnecessary.

Also it seems that once a corporation has met the test resulting in current taxation, then *all* its income would be taxed currently, not merely the income related to any new investments allegedly attracted by tax incentives. Once triggered, current taxation would apparently continue as long as the foreign corporation remains in manufacturing or processing activities. Possibly such a severe impact may not have been intended. But, if the proposals are as extreme as they seem to be in the Treasury's technical explanation, then U.S. foreign investors, including U.S. offshore and ocean-oriented companies, would be significantly impaired in carrying on their operations abroad.

Additionally, the Administration's proposals would place new limits on the use of the foreign tax credit in cases where the "tax holiday" or "runaway plant" provisions have triggered current taxation. Unless the Treasury's proposals are very narrowly confined, the resulting limitations on the foreign tax credit would severely reduce the effectiveness of the credit. The result would be to impair seriously the competitive survival of American business abroad.

Mr. Chairman, there are still other aspects of these proposals which must be of concern to companies operating overseas. For example, we feel the Committee ought to ask itself whether this country should further its efforts to extend extraterritorial taxing jurisdiction. Other major trading nations generally have not engaged in that practice, and have abided by territorial concepts of taxation. Furthermore, the Committee might question whether the Administration's efforts toward creating an international atmosphere of trade harmony would best be "encouraged" by U.S. threats, by unilateral action, to neutralize foreign tax incentives which could attract U.S. investors to countries they might not otherwise venture to enter. On the contrary, such a unilateral action could thwart the efforts of foreign nations to attract U.S. investment which they consider essential to their economic development. In the case of less developed countries the Administration's recommendations seem to be counter-productive to other U.S. policies relating to aid to underdeveloped nations, some of which already exist in the federal tax structure. We see no point in extending aid with one hand and withdrawing it with the other, and we urge the Committee to give due attention to this matter of contradicting policies in considering taxation and trade legislation.

"Recovery of Foreign Losses"

The third of the Administration's tax proposals relate to the so-called "recovery of foreign losses." Where foreign losses have the effect of reducing U.S. tax on U.S. source income, the "lost" U.S. Treasury tax revenues would be recovered in subsequent years by reducing the amount of the allowable credit for foreign income taxes paid on income from the "loss" country. Such losses commonly occur in foreign petroleum exploration activities, The Amercan Petroleum Institute presented an excellent statement to the committee on this point. Since the petroleum producing members of NOIA are also members of API, we will endorse that statement on this point rather than belaboring the point and expanding the hearing record.

Conclusion

Mr. Chairman and Members of the Ways and Means Committee, the task you have before you is a long and hard one to accomplish—but a vital one for the future of this nation and its people. The consideration of trade reforms seem so inextricably entwined with other national problems, policies, and priorities that one is reminded of a large bowl of marbles—move only one and they all are affected and rearrange themselves.

The National Ocean Industries Association, being fully cognizant of your concerns, have concentrated these remarks on the question of possible inclusion of sections in the Trade Reform Act of 1973, relating to taxation of foreign source income. Therefore, let us say—this is neither the time nor the place to change the nation's tax policies on foreign source income for the following reasons:

(1) The United States today has a very serious energy supply situation. We are already a net importer of fuels being dependent in imports for 25 percent of our domestic consumption. Before the turn of the century, domestic demands for energy fuels may increase by two and a half times while total world demand may treble.

(2) This country's national security interests require a strong U.S. petroleum industry at home and abroad to help provide the nation with energy—including sufficient foreign source oil—to meet our needs and to assure a flow of petroleum in time of war or other crisis. This might not be the case if development were left to others.

(3) Expansion of U.S. capital investment abroad should be encouraged in order to generate more foreign revenues from the performance of services abroad and from exports of U.S. goods, to bring a more favorable position to our balance of payments. The offshore and ocean-oriented industries represent invaluable conduits to recover some of the dollars which will be exported for petroleum imports in coming years.

(4) Inclusion of unfavorable tax provisions in legislation or trade reform would not increase domestic employment; but, rather, would cause unemployment at home because of the loss of foreign operations which need domestic support.

(5) The Administration's proposals relative to "tax holidays," "runaway plants," and "recovery of foreign losses" would be counterproductive to other national policies and would discourage needed foreign investments.

In short, the National Ocean Industries Association respectfully urges the Committee on Wavs and Means to omit sections relative to taxation of foreign source income from any version of the Trade Reform Act of 1973, which the Committee reports to the House of Representatives.

Statement of the Association of American Chambers of Commerce-Europe and Mediterranean, Inc.

(The Association of American Chambers of Commerce-Europe and Mediterranean, Inc. (hereinafter referred to as AACCEM) sought and was granted by the Committee an opportunity to testify with respect to H.R. 6767 and associated issues. However, the date scheduled for such testimony was too early to permit full coordination of views on the issues by all members of AACCEM and preparation of complete testimony. AACCEM appreciates the opportunity to make this written submission for the record in lieu of testimony. The statement has been prepared by AACCEMs general counsel, William Gilbert Carter, a member of the firm of Nicholson & Carter, Washington, D.C.)

The Assoication of American Chamber of Commerce-Europe and Mediterranean, a non-profit corporation incorporated in the District of Columbia, is a federation of American Chambers of Commerce in eleven countries of Europe and the Mediterranean basin (United Kingdom, Franch, Belgium, Italy, Switzerland, Germany, the Netherlands, Austria, Spain, Ireland and Morocco), representing some 14,000 firms, corporations, and individual members. The purposes of AACCEM are: to foster economic development through the private enterprise system; to represent the mutual interests of its members; and to promote mutually beneficial, expanding business relationships between the United States and the countries of Europe and the Mediterranean basin.

Because of the intimate and unique involvement of its members in both sides of the trading and investment relations between the United States and Europe-

Mediterranean, AACCEM is well situated to appreciate the enormous complexity of the factors—international agreements, national legislation, and regulatory procedures, monetary stability, and, above all, expectations of governments, labor and businessmen—which must work together harmoniously if mutually beneficial trade and investment relations are to continue to grow.

AACCEM welcomes the approach reflected in H.R. 6767 giving the Administration strong, credible negotiating authority to bring about increased liberalization of trade relationships between the United States and other countries and the improvement of the conditions for healthy, expanding international trade and commerce. Our criteria for an analysis of H.R. 6767 are the following four principles:

—Free international trade and commerce produce long term benefits for all parties. However, short term dislocations may arise which require equitable solutions. Such solutions should not, however, endanger the achievement of overriding long term objectives.

—Multilateral agreements, such as GATT, are the most appropriate framework for the enmbodiment of mutual and reciprocal undertakings to liberalize trade, although bilateral agreements are appropriate for certain situations. Once agreed to, all such undertakings should be scrupulously observed by all parties.

—Traditional free trade principles, such as most-favored-nation treatment, are the appropriate frame of reference within which to hammer out multilateral agreements.

—Non tariff barriers are at least as, and possibly more important deterrents at this time to expanded trade than are tariff barriers.

In analyzing the Trade Reform Act of 1973, in light of the above principles, AACCEM expresses strong support for the objectives of reducing both tariff and non-tariff barriers, generally endorses the granting of strong negotiating authority to the Administration to achieve such objectives, suggests the inclusion of limitations and guidelines in several specific provisions of the Bill, strongly urges the liberalization, expansion, and administrative restructuring of trade adjustment assistance to workers, communities, and firms, opposes the direct linkage within the Bill of balance of payments considerations as a justification for surcharges and quantitative limitations on imports, strongly supports the granting of most-favored-nation tariff treatment to the USSR and other centrally planned non-market economies, and strongly supports the grants of generalized preferences to the exports of manufactured, semi-manufactured, and other selected products of developing nations. With respect to an associated issue, AACCEM strongly opposes the Treasury proposals for tax changes relating to "foreign tax haven manufacturing corporations" released by the Treasury on April 30, 1973.

Before giving detailed comments on the specifics of the Bill, it may be helpful to express AACCEM's view that the major deficiency of H.R. 6767 is the potential it creates for an unwise and excessive accommodation of the growing calls for a return to a mercantilistic, protectionist orientation of the United States in world trade. If the United States is to enjoy an appropriate share of expanding world markets it is vital that we continue to press towards liberalization of trade and free access of goods across national borders. This process inevitably brings short term dislocations and economic hardship on certain sectors of the economy of all nations mutually committed to free trade. These dislocations must be recognized and the hardships alleviated, through trade adjustment assistance and other appropriate responses. It is, however, exceedingly dangerous to provide such a broad range of discretionary protective mechanisms that the declared objective of liberalization loses its credibility with major international trading partners. If this credibility is lost, we cannot look forward with in this spirit, then, that AACCEM offers its comments, criticisms and suggestions optimism to a successful conclusion of the forthcoming trade negotiations. It is on the specific provisions of the Trade Reform Act of 1973.

TITLE I—AUTHORITY FOR NEW NEGOTIATIONS

Section 101: Basic Negotiating Authority

We support basic authority for the President to enter into trade agreements reducing tariff levels. We do not believe it necessary for the President to be given unlimited authority to raise tariffs in the course of negotiation and, accordingly, urge that authority to raise tariffs be limited to the conversion of non-tariff barriers into tariffs and for the harmonization of disparities in the tariff systems of the negotiating countries. Further, we suggest that con-

sideration be given to placing a limitation on the percentage change in tariff rates which can be negotiated as part of such tariff harmonization agreements.

Section 103: Non-Tariff Barriers

We support the provisions of the Trade Reform Bill with respect to non-tariff barriers (Section 103). However, we believe that all non-tariff barriers agreements negotiated by the President, other than those specified under Subsection (c) dealing with methods of customs valuation, establishing quantities on which assessments are made, and requirements for marketing country of origin, should be subject to the ninety-day Congressional veto procedure specified in Subsection (e) of Section 103.

Sections 111–114: Prenegotiation Requirements

We support these provisions without qualification.

TITLE II—RELIEF FROM DISRUPTIONS CAUSED BY FAIR COMPETITION

Sections 201–203: Import Relief

We strongly support the proposals to liberalize "escape clause" criteria. However, we are opposed to the procedure set forth in Subsection 201(a)(5), under which a serious injury or threat together with a finding of market disruption constitutes prima facie evidence that the imports were the primary cause of injury. Given current and, in our opinion, ill-advised growth of protectionist sentiment in the United States, these provisions, if unchanged, could easily result in a widespread wave of retaliation from the major trading partners of the United States and sharply decreased incentive to American producers to remain fully competitive in world markets.

We also oppose the provisions of Section 203(a)(2) & (3), authorizing the President to suspend the applications of Items 806.30 or 807.00 of the Tariff Schedules of the United States and to negotiate orderly marketing agreements.

Available evidence indicates that the effect of elimination of 806.30 and 807.00 would be a net reduction of U. S. employment, and a net reduction of U. S. exports of materials and components. Again, protectionist pressures from highly organized special interest groups can be expected to focus on these two new proposals which contain the seeds both of retaliatory measures on the international front and increased inflationary pressures on the domestic front. It has already been pointed out to the Committee by others that, paradoxically, H. R. 6767 would give the President extraordinarily broad negotiating authority, but a relatively inflexible choice of responses in case of findings of serious injury or threat. In our view, it would be wiser and more appropriate to retain, expand, and reform the present program of trade adjustment assistance rather than to embark on what to us seems potentially dangerous experimentation with Items 806.30 and 807.00, and negotiation of "orderly marketing agreements" on what could too easily become a destructively wide range of products.

Section 221–246: Trade Adjustment Assistance

As indicated above, we believe that the present program of Trade Adjustment Assistance should be liberalized, expanded, and administratively reformed. A number of constructive proopsals and serious analyses of the structure, criteria, and cost of a successful Trade Adjustment Assistance program have been made, notably by the Chamber of Commerce of the Uniited States. In our view, this is the appropriate response, one followed by many of our mutual trading partners, to the inevitable dislocations caused in carrying out a meaningful reciprocal restructuring of international trade patterns on free trade principles. Such dislocations cannot and should not be ignored. However, to attempt to meet them by measures which are fundamentally inconsistent with the long term objective of establishing free flow of goods, services and investment is ill advised.

Although it is clear that both substantively and administratively, the existing program of Trade Adjustment Assistance has not been successful, it appears to be the position of the Administration that the experience to date justifies a conclusion either that no program of Trade Adjustment Assistance can be effective or, if effective, that it would be at an unacceptable budgetary cost. We believe the study and recommendations of the Chamber of Commerce of the United States demonstrates that neither of these conclusions is valid. We earnestly commend the U. S. Chamber of Commerce study to the Committee and

urge that H. R. 6767 be appropriately amended to reflect the recommendations contained therein.

TITLE III—RELIEF FROM UNFAIR TRADE PRACTICES—

Section 301: Responses to Unfair Import Restrictions

We support, with one major modification, the expanded authority of the President to retaliate against foreign import restrictions: we believe that retaliation against foreign export subsidies should be limited to the same product, sector, or industry as that subsidized by the foreign country. Without this limitation, the danger of unleashing a series of destructive "chicken wars" will be great. Moreover, given the politically explosive nature of retaliation, we believe that hearings at which all interested parties could present their cases should be required prior to any Presidential decision under this Section.

Section 310: Amendments to the Antidumping Act of 1921

We strongly support the proposed amendments establishing a definite procedural framework for the determination of antidumping cases and suggest that the Committee make express provision for judicial review.

Section 330: Countervailing Duties

As in the case of the proposed amendments to the Antidumping Act, the amendments herein proposed have the desirable effect of providing procedural certainty in the processing of countervailing duty cases. Again, we recommend that the Committee provide for judicial review.

Section 350: Unfair Practices in Import Trade

We support these provisions.

TITLE IV—INTERNATIONAL TRADE POLICY MANAGEMENT

Although AACCEM supports the provisions of Sections 402–411 relating to withdrawal of concessions, renegotiation of duties, compensation authority, suspensions of import barriers to restrain inflation and related procedural matters, *we strongly oppose the proposed authority in Section 401 authorizing the President to impose import surcharges and quantitative limitations on imports in case of balance of payments deficits.*

Our opposition to Section 401 is based on both practical and legal grounds. We are convinced that such direct interference with established trading paterns based upon expectation of stability of tariffs over a substantial period of time is unwise and unfair. Although monetary reform is widely—and properly—viewed as a major and integral element in the forthcoming negotiations, it does not justify in any way the granting of broad authority to disrupt trading relationship on balance of payments grounds. It may be that the shock of the Connally surcharge served a purpose similar to the farmer hitting the mule over the head to get his attention. If so, it has served its purpose. No one can now doubt that monetary reform will be seriously negotiated in parallel to the trade negotiations.

Moreover, import surcharges violate the provisions of GATT and represent an arbitrary, unilateral form of trade control inconsistent with free trade policies.

For the above reasons, we urge the Committee to delete Section 401.

TITLE V—TRADE RELATIONS WITH COUNTRIES NOT ENJOYING MOST-FAVORED-NATION TARIFF TREATMENT

We support without reservation the provisions of Sections 501–506 of the Bill, believing strongly that they are an essential element in establishing the basis for growing, mutually beneficial economic relations with Eastern Europe. For such relations to develop, relations which have immense potential for improving the international political climate, the Eastern European countries must be able to market their materials and goods in the West. Granting MFN treatment is a vital element.

TITLE VI—GENERALIZED SYSTEM OF PREFERENCES

We strongly support the provisions of H.R. 6767 which would establish a generalized system of preferences for exports of manufactured, semi-manufactured, and selected other products from developing countries. These liberal terms of entry for these products into the markets of the industrialized countries is

vital if the developing countries are to have any real hope of earning enough foreign exchange to finance further development and modernization. Opening up our markets to these goods is probably the most effective form of "foreign aid," serving the best interest of all countries developing and developed alike.

ASSOCIATED ISSUE

Taxation of Foreign Source Income

AACCEM takes this opportunity to comment on tax changes relating to "foreign tax haven manufacturing corporations" proposed by the Treasury Department on April 30, 1973 and further commented on by Treasury in a release dated June 11, 1973.

We strongly oppose the changes proposed by the Treasury Department. Our opposition is based on these considerations:

—Tax holidays and other forms of tax relief have long been recognized as justifiable measures to overcome various disadvantages of a particular country or region in its efforts to attract employment and income-generating investment, the vital elements for adequate growth and development to meet the needs of the population. Such measures are widely employed in both developed countries (Ireland, France, the United Kingdom, Italy, and the United States), and developing countries (Brazil, Indonesia, Taiwan, Singapore, etc.). Indeed, the United States government has, through its foreign aid programs, provided technical assistance in the formulation of such measures.

—The objectives of our foreign aid program, healthy, growing economies providing markets for goods and services on a basis of mutual exchange and benefit for all countries, will be partially frustrated by the adoption of these proposals.

—Our interest in seeing countries like Ireland and Italy develop new sources of employment would be strongly damaged by the adoption of these proposals.

—The overriding interest of the United States is to pursue policies which will help us establish and maintain an appropriate share of world markets. The measures proposed by the Treasury Department inevitably and inescapably would have precisely the opposite effect.

Illustratively, the major appeal of Ireland as a base for manufacturing operations by U.S. companies is the opportunity to come within the common external tariff of the EEC and to avoid most EEC non-tariff barriers. Adoption of these proposals would have profoundly anti-competitive effects on U.S. business interests.

—The 20% growth test is wholly unrealistic and would result in full taxability of current income of most U.S. subsidiaries within a very few years.

In summary, we emphasize that no other major industrial country taxes currently the unremitted earnings of the foreign subsidiaries of its domestic corporations. Indeed, many of them do not tax foreign source income at all. In the world market we live in, where all major trading countries are competing for fair shares of expanding markets, it would be exceedingly unwise for the United States, acting in response to mistaken notions of how to keep America economically strong, to adapt taxation measures which would inevitably harm our competitive position in world trade.

STATEMENT OF THE GERMAN AMERICAN CHAMBER OF COMMERCE, INC.

The German American Chamber of Commerce, Inc. was incorporated in the State of New York in 1947. It is registered under the Foreign Agents Registration Act because it receives some of its financial support from abroad. It is a bi-national organization of 1,050 members, consisting of 540 United States members and 510 German members. (A copy of its most recent membership list dated December 1972 was previously submitted to the Committee.)

The Chamber represents business men from the two largest trading nations in the world. One of its primary concerns is the fostering of two-way trade between the United States and Germany. Its members are as interested in exports from the United States to Germany as they are in exports from Germany to the United States.

The Chamber welcomes the goal, expressed in the message of the President of the United States, accompanying the proposed Trade Reform Act of 1973, of building a fair and open trading world. Being conscious of the balance of payments problems that have been besetting the United States and anxious to see them eliminated by wise economic and financial policy, we trust that the United

States will have adequate negotiating authority for the coming round of international trade discussions.

Broadly speaking, any trade posture of the United States that might be understood as protectionist in design or execution is a matter of deep concern to our Chamber. Long-range consequences of any protectionist action would, in effect, be injurious to the United States and run counter to its best interests.

The United States as well as other nations are committed to abide by their international trade agreements, including the GATT. These agreements will probably be extensively revised in the forthcoming trade negotiations beginning in Tokyo in September of this year. This revision is desired not only by the United States, but by many other members of the GATT, including the EEC countries. It is hoped that the United States will be able to enter these negotiations, not only with adequate authority to negotiate, but also with a flexibility as to substantive revisions. Accordingly, we are hopeful that the Congress will not pass legislation in advance which limits this flexibility and which may establish national U.S. trade policy which could make difficult U.S. international negotiations in the same areas.

More particularly, and as examples of our concern, we mention the following:

1. The proposed revision of the U.S. escape clause, including the concept of "market disruption", in Title II of the proposed Act, which rigidly establishes a U.S. national trade policy prior to the international negotiations on the "escape clause" of Article 19 of the GATT.

2. The broad grant of authority under Title III of the proposed Act to take discriminatory measures against countries which impair trade commitments made to the United States. This should be negotiated internationally and such authority should be exercised within a framework of international rules.

3. The broad grant of authority under Title IV of the proposed Act to take discriminatory measures against countries with favorable balances of payment, again prior to international negotiations on this subject. In sum, we are hopeful the President will grant negotiating authority pursuant to Title I but we are concerned that he will be adversely restricted in his negotiation by certain of the provisions of Title II, III and IV. We believe such restriction unnecessary if the Congress maintains close liason with the negotiators.

In his message, the President also noted that international investment activities are in need of new rules and mechanisms. In this context, the Chamber respectfully suggests that, as a step toward the accomplishment of the Act's purposes, the United States should consider the encouragement of foreign direct investment in the United States. At the present such investment is modest in size and far surpassed by U.S. direct investment abroad. Substantial commitment of funds to the United Stattes by German investors, largely to establish production subsidiaries, would be beneficial to all parties concerned. In the short term, the U.S. balance-of-payment deficit would be ameliorated, new jobs would be created and the Federal Republic of Germany's acute labor shortage eased. Over the long term, the two economies would become more closely intertwined, there would be increasing exchange of know-how, licenses, etc. The amount of dircet foreign investment in each of the two countries would be more evenly balanced with the other and the reflow of profits from subsidiaries to parent companies could exercise a stabilizing influence.

The Chamber therefore respectfully suggests that appropriate incentives be considered for qualified foreign investors, particularly those establishing or modernizing manufacturing plants in designated areas in the United States. To stimulate such investment activity, the Chamber further suggests that machinery and equipment brought into the United States by foreign investors for the establishment of subsidiaries or joint ventures, receive certain trade preferences. It should be noted that the Government of the Federal Republic of Germany supports German direct investment in the United States. The granting of tax, trade or other incentives by the United States to direct foreign investment in the United States, including machinery and equipment related thereto, would encounter no obstacles and elicit no objection on the part of the Federal Republic of Germany. We sincerely hope that these suggestions for incentives for more direct foreign investment in the United States will be seriously considered by the Committee on Ways and Means. We thank you for the opportunity to present this Statement.

SUMMARY

1. The Chamber supports a broad grant of negotiating authority for the President and his representatives made effective by a close liaison with the United States Congress.

2. The Chamber hopes that this negotiating authority will not be frustrated by a rigid fixing of national trade policy through domestic legislation prior to an attempted resolution of the many underlying problems through the forthcoming international negotiations.

3. The Chamber respectfully suggests appropriate incentives be considered to stimulate foreign direct investment in the United States.

CALIFORNIA CHAMBER OF COMMERCE,
Sacramento, Calif., June 8, 1973.

Hon. WILBUR D. MILLS,
House of Representatives,
Washington, D.C.

DEAR MR. MILLS: The California Chamber of Commerce submits to the Ways and Means Committee its position on the Trade Reform Act of 1973, HR 6767. The full text of that position is attached.

We ask that the Chamber's views be included in the record as testimony of HR 6767. Copies have been addressed to other members of the Committee and to the members of the California delegation.

The California Chamber supports the bill. Our World Trade Committee and Board of Directors have reviewed the bill carefully. The enclosed position paper recommends that a few sections of HR 6767 be modified by amendment. Suggested amendments and the reasons therefor are detailed.

It is emphasized that our support of the trade bill is not contingent upon adoption of amendments. We believe the suggested amendments improve the bill and ask that they be considered by the Ways and Means Committee.

We commend you for giving a high priority to and expediting hearings on the Trade Reform Act of 1973.

Respectfully,

JOHN T. HAY,
Executive Vice President.

Enclosure.

TRADE REFORM ACT OF 1973

The California Chamber of Commerce favors adoption by the Congress of "The Trade Reform Act of 1973." The extraordinary grant of power to the President in H.R. 6767 is justified by the urgent need for a strong but flexible U.S. role in trade matters including the multilateral trade negotiations which will commence later this year.

The Chamber does desire, however, to propose certain constructive changes which will strengthen the bill. Although Chamber support of H.R. 6767 is not contingent upon the adoption of these suggestions, the Chamber hopes that they will be carefully considered by the members of the Congress during their deliberation on H.R. 6767.

The suggested amendments follow:

Title I: Provide a commission to identify, investigate, hold public hearings, and evaluate non-tariff barriers.

Reason.—Section III provides for Tariff Commission investigation and evaluation of tariff matters. No similar arrangement is suggested for non-tariff trade barriers which, if anything, are more difficult to identify and to evaluate. The California Chamber of Commerce recommends that language be added to this title to establish a commission which would operate in much the same way as the Tariff Commission, but confine its efforts to non-tariff trade barriers.

Title I, Section 112(a): Add the following sentence to the end of 112(a): "In developing information and advice, the Departments of Agriculuture, Commerce, Defense, Interior, Labor, State, Treasury, and the Special Representative for Trade Negotiations shall seek advice and guidance from representative industry, labor, agriculture, and trade groups which would be directly affected."

Reason.—Section 112(a) as written in H.R. 6767 does not require either the President or the specified departments to seek information and advice from affected industry, labor, agricultural, and trade groups. These parties may be the most knowledgeable about the matters under consideration, especially in regards to non-tariff trade barriers, and therefore the California Chamber of Commerce believes that the provision should be made to insure their participation prior to the entering into of any trade agreement.

Title I: Provide for on-going consultation during negotiations between the U.S. trade negotiators and effected industry, agricultural, labor, and trade groups.

Reason.—Previons experience during the Kennedy Round of tariff negotiations indicated that the U.S. negotiating team was frequently placed at a disadvantage vis á vis their foreign counterparts by not keeping in touch with affected industry, agricultural, labor, and trade groups during the negotiating process. To avoid this in future negotiations, the California Chamber of Commerce recommends that language be added to this title which would insure that consultation continues during the negotiating process.

Title II, Section 201(b), (5): Strike the words "prima facie."

Reason.—The California Chamber of Commerce believes that the term "prima facie" may serve to prevent the Tariff Commission from fully considering all relevant factors and thus the term should be deleted.

Title II, Section 202(a) and Section 203: Include provisions in both sections requiring that the President make public his reasons for selecting specific alternatives after receiving an affirmative finding from the Tariff Commission.

Reason.—Section 202(b) requires the President to report to Congress only if he elects *not* to provide import relief. Since actions to regulate the flow of trade can have serious impact upon consumers and business, the California Chamber of Commerce recommends the inclusion of language which would require the President to make public his reasons for exercising any of his available alternatives under Sections 202(a) and 203(a)—adjustment assistance, orderly marketing agreements, duties, quotas, etc.

Title II, Section 203(a) (2): Deletion of the item is recommended.

Reason.—Section 203 defines the various alternatives that the President may select to provide import relief. One of these alternatives is to "suspend in whole or in part the application of Sections 806.30 or 807.00 of the Tariff Schedules of the United States with respect to such article." Suspension of these sections would impose tariffs on U.S.-made products which have been shipped abroad for further assembly or processing and then returned to the United States.

The U.S. Tariff Commission in its extensive study concluded that one of the effects of tariff items 806.30 and 807.00 was to increase the use of U.S. origin parts and components in products made abroad thus increasing U.S. jobs. The California Chamber of Commerce agrees with these findings and believes that in view of Section 203(a)(1) which would allow the President to increase duties as a means of import relief, the additional provisions of 203(a)(2) to limit the use of tariff items 806.30 and 807.00 would be unnecessary. Moreover, the Chamber believes that the existence and exercise of this power would increase the use of foreign-made parts and components and force the transfer of additional manufacturing operations abroad to the detriment of U.S. industry and U.S. labor.

Title II, Chapter 2, Adjustment Assistance for Workers: It is recommended a liberalized form of Adjustment Assistance to Business, injured by sudden and severe import competition, be provided as is Adjustment Assistance for Workers.

Reason.—The Chamber does not concur with the reasons given for denying Adjustment Assistance to firms. The existing program has been ineffective as has been the existing program for assistance to workers. Changing competitive conditions do not always strike an industry as a whole and therefore import relief may not be a satisfactory remedy. Furthermore, under Section 202(a) the President may elect not to use import relief but only grant Adjustment Assistance for Workers. In cases like these and especially where the introduction of new technology may restore a firm to economic health, adjustment assistance may be the only solution. For these reasons the California Chamber of Commerce believes that Adjustment assistance to firms should be liberalized and made more effective in much the same way as H.R. 6767 would correct the defects in the present law with respect to workers.

Title III, Chapter 1, Section 301: The powers of the President to impose import restrictions to curb unfair trade practices should:

(1) provide for public hearings,

(2) be subject to review,

(3) exclude in transit shipments or indemnify importers for losses sustained.

Reason.—The provisions in Section 301 would empower the President respond to unfair foreign import restrictions and export subsidies by stopping the flow of foreign commerce into the United States and to elect, if he chooses to do so, to impose such burdens on a country-by-country and/or commodity-by-commodity basis. The Chamber understands the need for the President to act quickly

and decisively in some cases in order to obtain immediate concessions or relief for unfair practices. Nevertheless, the Chamber believes that provision should be made in this section for public hearings, preferably prior to taking action, at which time the issues can be aired and testimony taken as to possible counteractions such as the impact of possible retaliation on various U.S. exports, etc.

The Chamber suggests that some review on the presidential exercise of such powers be considered. Congressional review within a time frame of 90 days (found elsewhere in the bill) could be incorporated in Section 301, with the presidential action to continue in effect unless and until Congress, by a vote of either house, vetoes the President's action.

The Chamber does not find in the provisions of Section 301 any relief or protection to an importer who has a signed commitment or contract when the President elects to impose substantial new duties or restrictions on imports. Efforts to protect one business ought not to bankrupt another by imposing changed circumstances in the middle of a contract. A provision similar to that employed in 1971 during temporary 10% import duty surcharge could be written into Section 301 so that, for example, the new levy would not apply to any shipment in transit or under an outstanding letter of credit. As an alternative, the government could indemnify an importer for actual losses when the imposed duty would cause a loss on shipment in transit or under a letter of credit.

Title III, Chapters 2 and 3: The imposition of anti-dumping or countervailing duties should exclude in-transit shipments or indemnify importers for losses sustained.

Reason.—As is the situation with Chapter 1, the California Chamber of Commerce believes that importers who have signed commitments or contracts when the President elects to impose substantial new duties should be protected from loss. Again, a provision similar to that employed in 1971 during the temporary 10% duty surcharge could be included in Chapters 2 and 3 so that, for example, the new levy would not apply ot any shipment in transit or under an outstanding letter of credit. Alternately, the government could indemnify an importer for actual losses when the imposed duty would cause a loss on shipment in transit or under a letter of credit.

Title VI, Section 604(a): Include the following sentence as item (6), "whether or not such country has erected significant tariff or non-tariff barriers directed primarily against the United States."

Reason.—The California Chamber of Commerce believes that a country which singles out the United States for discriminatory treatment in regard to tariff or non-tariff barriers should neither be designated as nor receive the benefits of a beneficiary developing country.

LOS ANGELES AREA CHAMBER OF COMMERCE,
Los Angeles, Calif., June 14, 1973.

HON. WILBUR MILLS,
Chairman, House Ways and Means Committee,
House Office Building,
Washington, D.C.

DEAR CONGRESSMAN MILLS: On June 14, 1973 the Board of Directors of the Los Angeles Area Chamber of Commerce adopted the following policy statement regarding the Trade Expansion Act of 1973:

That the Board of Directors of the Los Angeles Area Chamber of Commerce support in principal, with exceptions, the objectives of the proposed Trade Reform Act of 1973, H.R. 6767, which will provide legislation to assist in negotiating for a more open and equitable trade system, deal effectively with rapid increase in imports that disrupt domestic markets and displace American workers; strengthen our ability to meet unfair competitive practices; manage our trade policy more efficiently and use it more effectively to deal with special needs such as our balance of payments and inflation problems; and take advantage of new trade opportunities while enhancing the contribution trade can make to the development of poorer countries, with exceptions enumerated in a detailed statement to be submitted to the House Ways and Means Committee while opposing the principals of the Treasury recommendations dealing with the taxation of foreign source income as restrictive, recessive and obstructive and recommend that taxation of foreign source income be treated as a part of over all tax policy rather than foreign trade policy.

Exceptions referred to in the above statement are enumerated as follows:

1. We oppose the provisions of the bill which would permit the President to suspend Items 806.30 and 807.00 of the Tariff Schedules of the United States. These Schedules permit an American producer to send abroad parts manufactured in the United States for assembly or for further processing. Upon re-entry into the United States, tax is levied only on the "value-added" as a result of the foreign assembly process, or on the cost of processing.

2. Precipitious application of Sur-Tax-Provisions within the bill provides for a "without notice" surcharge. The most objectionable point to the importer is the manner and method of application without adequate notification and without proper application. It is recognized that there may at times be a need to apply such a Sur-Tax to correct a severe trade imbalance. We favor the authority given the President to apply a Sur-Tax selectively, but adequate notice should be stipulated at least regarding merchandise already en route to the United States of America so as not to be disruptive and harmful. The imposition of the Sur-Tax in 1971 was highly disruptive to world trade.

With respect to exception No. 1, the suspension of 806.30 and 807.00 of the Tariff Schedule of the United States whereby parts are manufactured in the United States and sent abroad for assembly or further process would have its greatest impact upon the Southwest area of the United States, particularly Southern California. Because of this area's proximity to the industrial centers of Mexico many Southern California firms use the provisions 806.30 and 807.00, and in fact rely upon them for their continued existence. Thousands of jobs in Southern California are directly dependent upon these provisions remaining in effect.

A Tariff Commission study made in 1969 found that if these provisions were eliminated, only a small portion of the employment in Mexico would be returned to the United States, which would be more than off-set by losses of jobs to United States workers now producing components for export; and would not discourage the development of production facilities abroad, which would continue substituting foreign materials for United States components. Suspension of the above items would have a harsh economic impact on the United States border areas which are enjoying continued prosperity under the twin-plant concept.

It is the intention of this organization to offer to the House Ways and Means Committee the above information as testimony on the hearings presently being conducted on the Trade Reform Act of 1973 (H.R. 6767).

Most cordially,

FREDERICK LLEWELLYN,
President.

THE SAN DIEGO CHAMBER OF COMMERCE,
San Diego, Calif., May 8, 1973.

JOHN M. MARTIN, Jr.,
Chief Counsel, Committee on Ways and Means, Longworth House Office Building, Washington, D.C.

DEAR MR. MARTIN: The San Diego Chamber of Commerce recommends that Congress authorize the President to negotiate and consummate comprehensive multilateral trade and investment agreements. Specifically, the San Diego Chamber of Commerce supports, in full, H.R. 6767 (Mills) "Trade Reform Act of 1973."

This written statement is submitted for consideration in lieu of a personal appearance.

Sincerely,

EBEN W. DOBSON, Jr.,
President.

STATEMENT OF THE NEW YORK CHAMBER OF COMMERCE AND INDUSTRY

The New York Chamber of Commerce and Industry welcomes this opportunity to submit its views and positions on The Trade Reform Act of 1973, (HR6767).

For the record the New York Chamber of Commerce and Industry is the oldest Chamber in the United States, having been founded in 1768. On April 2, 1973, the New York Chamber of Commerce consolidated its operations with the Commerce and Industry Association of New York Incorporated and thus became the largest Chamber service organization in the United States.

The Chamber is composed of over 3,000 members engaged in business or the professions the majority of whom work and reside in the New York Metropolitan area. Its membership is broadly representative of the commerce and industry of New York City and the New York Metropolitan area. Its membership is broadly representative of the commerce and industry of New York City and the New York Metropolitan area and it includes banking, finance, trade, insurance, shipping, transportation, construction, and public utilities, among others and all the ancillary services and professions which support the operations of the nation's and the world's leading business community. In addition our membership contains the largest group in the world of firms involved in international trade.

As the leading spokesman for New York business, the Chamber since its inception has been a staunch supporter of all measures which promote the freer flow of investment funds and merchandise across international borders. At the same time it has vigorously opposed protectionist drives to restrict international trade and investment. This traditional policy of wider nondiscriminatory trade based on the most-favored-nation principle has worked to the economic well-being of America in the past and the continuance of this policy will enable America to meet the challenges and prosper from the opportunities that an ever increasing volume of international trade will present to the United States in the years ahead.

Continuing in this enlightened policy vein, the New York Chamber of Commerce and Industry wholeheartedly endorses the objectives and provisions of The Trade Act of 1973. As the leading industrial nation of the world, the United States has the most to gain from expanding trade and should lead the way to broaden and increase the trade opportunities for both the industrial nations and for the emerging economies. This Act is the proper vehicle to accomplish this goal and the New York Chamber of Commerce and Industry urges this Committee to report out legislation embodying the philosophy, policy and goals of The Trade Reform Act of 1973.

In its overall endorsement of this Act, the New York Chamber of Commerce and Industry does have reservations about some of the Act's specific provisions. For this reason we present below a detailed analysis of the specific provisions of The Trade Act of 1973.

TRADE REFORM ACT OF 1973 (H.R. 6767)

TITLE I—AUTHORITY FOR NEW NEGOTIATIONS

CHAPTER I. GENERAL AUTHORITIES—SECTIONS 101, 182 AND 103

Section 101.—Basic negotiating authority

The New York Chamber of Commerce & Industry supports this section which provides the President with the basic authority for negotiating trade agreements for a period of five years. It also provides the President with the authority to raise or lower duties or continue duty free treatment as he determines is necessary.

Section. 102.—Staging requirements

This section provides a logical schedule for the orderly reduction in the rates of duties negotiated in a trade agreement, taking into account both time intervals for reductions and amounts of reduction. The purpose of such staging is to provide time for U.S. industries and workers to adjust to the effects of any reductions or eliminations of duties. Duty reductions will be phased over a minimum of five equal annual stages, or by maximum annual reductions of three percent advalorem, whichever is greater.

The New York Chamber of Commerce & Industry supports this section.

Section 103.—Non-tariff barriers

This section provides the President with advance authority to implement agreements relating to methods of customs valuation, establishing quantities on which assessments are made and from requirements of marking of country of origin.

The President is also given authority to negotiate trade agreements aimed at reducing other non-tariff barriers or other distortions of international trade. A new procedure is established under which the President can implement these latter barriers, if he notifies Congress 90 days before concluding such an agreement and neither House of Congress disapproves of the agreement, within 90 days of its submission.

The New York Chamber has always supported the need to eliminate non-tariff barriers to trade, including agricultural as well as industrial products, as a necessary requirement for successful trade negotiations.

We agree with the discretionary authority given the President in the bill to negotiate agreements reducing barriers in the area of customs valuation, establishing quantities on which assessments are made, and origin marking requirements. (Caveat: change in methods of customs valuation may cause a major upheaval in customs procedures in this country).

We feel that there is a need for international procedures to formalize and identify all NTB's, that the subject of NTB's be a continuing area of study and negotiation.

CHAPTER II. HEARINGS AND ADVICE CONCERNING NEGOTIATIONS—SECTIONS 111, 112, 114 AND 121

The title outlines the prenegotiation requirements and procedures which the President must follow in carrying out Section 101 of the Trade Reform Act of 1973.

Section 111.—Tariff Commission advice

This section sets up the mechanism by which the President works with the Tariff Commission in determining the eligibility of articles for special consideration in any trade agreement. The President must publish and transmit to the Tariff Commission lists of any articles which may be considered for concession. In turn the Tariff Commission must inform the President of the impact on domestic producers of any concession after a complete analysis and public hearings. The New York Chamber endorses the provisions of Section 111.

Section 112. Advice from Departments

This section provides for the same reporting and examination procedures as outlined under Section 111 above except that instead of the Tariff Commission, the agencies involved are the Departments of Agriculture, Commerce, Defense, Interior, Labor, State, Treasury and from the Special Representative for Trade Negotiations. The New York Chamber of Commerce and Industry endorses the provisions of Section 112.

Section 113.—Public hearings

This section requires the President to hold public hearings in connection with proposed trade agreement which provides for concessions on imported articles, any concessions to be sought from foreign countries and other relevant matters. The New York Chamber of Commerce & Industry believes that public hearings on these matters is vitally necessary.

We are concerned about the broad Presidential authority granted under various sections of HR 6767 and therefore we strongly urge that the concept of Section 113 relating to public hearings and the requirement that the President afford the opportunity for any interested person to present his views should be made applicable not only to proposed trade agreements but also to any other matters where the President has discretionary powers to act independently under this bill.

Section 114—Prerequisite for offers

This section allows the President to enter into negotiations as outlined in Section 101 (Negotiating Authority) but at the same time he is prohibited from agreeing to modify any duty until he is in receipt of a Tariff Commission report. The New York Chamber of Commerce and Industry supports the objectives of this section.

Section 121.—Transmission of agreements to Congress

This section requires the President to transmit to each House of Congress a copy of all trade agreements entered into with other trading nations. In addition this statement must outline the reasons for the agreement and also contain the findings of the Tariff Commission on the specific points of the agreement. The New York Chamber of Commerce endorses the requirements laid out in Section 121.

TITLE II—RELIEF FROM DISRUPTION CAUSED BY FAIR COMPETITION

CHAPTER I. IMPORT RELIEF

Section 021.—Investigation by Tariff Commission

This section outlines the procedures to be followed by the Tariff Commission in conducting an investigation to determine the existence of injury to a domestic industry from imports.

A petition for import relief may be filled by any entity which represents an industry with the Tariff Commission. In the Special Representative for

Trade Negotiating and other governmental agencies which are concerned with the petitioning industry.

The Tariff Commission must conduct an investigation to determine whether there is injury to a domestic industry due to imports as outlined in the request of the petitioner.

In its determination of whether a case of import injury exists the Tariff Commission is provided with new guidelines. Under the Trade Expansion Act of 1962 (Section 3011b) the imported produce had to be the major cause of injury to an industry. Under Title II Section 201 of the Trade Expansion Act of 1973, the term "primary cause" is substittued for "major cause." As spelled out "major cause" means greater than all other factors combined. On the other hand "primary cause" means the largest single cause. We feel that an import should be proven to be a major cause of injury and a causal relationship showing the injurious impact of an import on a domestic industry should be established to qualify for relief. The utilization of a primary cause guideline would open up a floodgate of requests petition for import relief which are neither valid nor justifiable under the philosophy and spirit of the Act. We oppose the substitution of the term "primary cause" as provided in Section 201.

In addition this section provides that the Tariff Commission determine whether a condition of market disruption exists due to the import of a specific product. If in its investigation the Tariff Commission finds both market disruption and serious injury, or the threat thereof, the finding of market disruption shall constitute *prima facie* evidence that increased imports are the primary cause of such injury of threat thereof. Here again as above it is the feeling of the New York Chamber of Commerce and Industry that the *prima facie* test would open up the escape clause provisions well beyond what is necessary or practical. It would be up to the petitioner to adequately justify his claim of import injury by establishing a valid causality relationship between the impact of imports and the domestic market conditions. The *prima facie* test and the "primary cause" definition of injury do not constitute fair and equitable guidelines for determining injury.

We feel that the granting of import relief under this chapter should occur infrequently because the appropriate response to fair competition lies in the utilization of liberal and readily available adjustment assistance programs.

The remaining provisions of Section 201 provide for public hearings by the Tariff Commission, reports by the Commissionto the President and a year's interval before the initiation of a subsequent investigation of petitions previously investigated and reported by the Commission. We endorse these procedural requirements.

Section 203.—Import relief

Provides the President with authority to provide import relief (not to exceed five years) to prevent or remedy serious injury or the threat thereof to the industry in question, by: (*a*) increasing or imposing a duty on such articles causing injury; (*b*) negotiating orderly marketing agreements or imposing quantitative restrictions on such articles imported into the United States; (*c*) suspending the application of 806.30 and 807.00 of the tariff schedule with respect to such article.

Such import relief must be phased out beginning after the third year, and can only be extended for one 2 year period. Renewal of the relief may be made only after a new Tariff Commission hearing.

The New York Chamber of Commerce opposes quantiative import restrictions, orderly marketing agreements as unnecessary and counterproductive. Surveys have shown that suspension of 806.30 and 807.00 under which United States manufactured parts are sent abroad for assembly or further processing would result in some companies purchasing their materials from foreign sources instead of from the U.S. Others indicate they would move some of their production facilities abroad.

The evidence indicates that these tariff items add significantly to this country's exports and provide a significant number of jobs here which otherwise would be lost. For these reasons, the New York Chamber of Commerce & Industry opposes the suspension of items 806.30 and 807.00.

CHAPTER 2. ADJUSTMENT ASSISTANCE FOR WORKERS

Sections 221, 222, 223, 231, 232, 233, 234, 237, 238, 239, 240, 241, 242, 243, 244, 245, 246

The primary purpose of this chapter is to provide adjustment assistance for workers displaced by import competition. Provisions relating to job search and

relocation expenses, as well as training are also included. The new proposals liberalize the eligibility requirements and speed up the process of payment and other relief benefits which are contained in the old Trade Expansion Act of 1962.

The New York Chamber of Commerce and Industry has been calling for liberalization of the criteria for determining eligibility under the adjustment assistance provisions of the 1962 Act. The current eligibility requirements are too stringent as evidenced by the fact that since 1962 only 23,000 workers have requested assistance and have qualified for adjustment assistance.

While we endorse the liberalization of eligibility requirements for employees as proposed in the Trade Reform Act of 1973, we strongly oppose the elimination of adjustment provision assistance for firms. As in the case of workers, the criteria for firms qualifying for adjustment assistance is much too stringent in the current law and hence few firms have been able to take advantage of the financial aid and technical assistance provided. Indeed there is now more than ever a need for adjustment assistance for firms, if the proposed adjustment assistance program for workers is to work effectively. Aid to firms might very well restore the competitiveness of the firm to foreign imports or help the firm to adjust to a new line of endeavor. In either case the ability of asistance to the firm to maintain that firm in business on a competitive basis can maintain and expand the job opportunities available in the specific firm. At the same time it is our view that in assisting those firms injured by import competition a vigorous surveillance must be carried out to guard against the inherent danger of indiscriminate use of this form of relief in a manner which could prolong the adjustment process, encourage inefficient industries or uneconomic production.

In addition to making firms eligible for adjustment assistance, the New York Chamber of Commerce and Industry believes that the Trade Reform Act of 1973 should also make provisions for an adjustment assistance program for communities. If workers and the firms who employ those workers suffer severe dislocations as a result of increased imports, it stands to reason that there is a good possibility that the communities in which they are located will also experience economic problems. The degree of the problem will of course vary depending upon the economic impact of the effected industry on the communities' total economy. A similar community aid program has been operated successfully by the Office of Economic Adjustment in the Department of Defense. Since 1961 this office has helped over 160 communities whose economy had been dependent upon large defense expenditures, adjust to changes in defense spending which cut or eliminated the communities' income. An adjustment assistance for communities could establish the community as the catalytic agent in combining the labor, business and community in developing and/or attracting new industries to take up the business slack resulting from import injury. The New York Chamber of Commerce and Industry strongly urges the insertion of an adjustment assistance program for communities into the current trade legislation.

While we objected to the substitution of the term "primary cause" for the term "major cause" in determining import injury to establish eligibility for relief under the "escape clause" provisions (Section 201) we strongly recommend a change in terms to liberalize the criteria for determining eligibility for adjustment assistance. The proposal outlined in Section 222 which substitutes the term "contribute substantially" for "major cause" in determining import injury for adjustment assistance eligibility achieves this objective.

The last objection we have is to a provision in section 236 which limits the payment of a relocation allowance to a worker who is the head of a family. It is the opinion of the New York Chamber of Commerce and Industry that this limitation would discriminate against a lot of workers who may be entitled to such an allowance but are excluded solely on the grounds that they are not heads of a family. The relocation allowance should be made available to all workers who meet the eligibility requirements, not just the head of a household.

As already stated the New York Chamber of Commerce & Industry endorses the program of liberalizing adjustment assistance for workers with the exception of the objections noted immediately above. In addition we recommend that adjustment assistance for firms and communities injured by imports also be provided.

For the record we would like to briefly comment on those sections which provide the machinery for a more efficient administration of adjustment assistance to workers injured by imports.

Section 221.—Petitions

This section provides for the filing of petitions by groups of workers with the Secretary of Labor for certification of eligibility for assistance. The Secretary

may set up public hearings if such hearings are requested by the petitioner. In effect the Secretary of Labor is now doing the job formerly assigned to the Tariff Commission. Such a change should speed up the processing of adjustment assistance requests.

Section 222.—Group eligibility

This section sets up the criteria by which the Secretary of Labor is substituted for the Tariff Commission as the determining agent in certifying eligibility for groups of workers. In addition Section 222 provides that in such a determination increased imports only "contribute substantially" to injury rather than be a major cause.

Section 223.—Determinations by Secretary of Labor

This section outlines the procedures which the Secretary must follow in making determination of certification and the time limit on notifying the petitioners. It also grants the Secretary the authority to request that the Tariff Commission conduct an investigation of the facts relevant to a determination of eligibility. Finally the Secretary is granted the authority to terminate any certificate of eligibility if he finds the injury is no longer attributable to the conditions under which the certificate of eligibility was originally granted. We endorse these provisions.

Sections 231–232

The provisions of sections 231 and 232 are designed to interlock with the administration proposed. "Job Assistance Act of 1973," and we oppose this back door approach establishing federal benefit standards. We recommend therefore that sections 231 and 232 of the proposed law be eliminated and in lieu thereof trade displaced worker's cash benefits be administered and financed by the states through their state unemployment compensation systems with the eligibility, benefit amounts, and durations being provided as required by the state law.

Section 233.—Employment services

This section provides that the Secretary of Labor shall make every reasonable effort to secure counseling, testing and placement services, and supportive and other services for workers certified for adjustment assistance. The Chamber endorses these provisions.

Section 234.—Training

This section authorizes the Secretary of Labor to provide or assure provision of appropriate training to trade-impacted workers under manpower and related service programs on a priority basis. The Chamber supports the granting of this authorization.

Section 235.—Job search allowance

This section provides that a worker certified for assistance is entitled to a job search allowance. This allowance provides reimbursement to the workers for 80 percent of the cost of his necessary job search expenses, not to exceed $500. The Chamber supports this provision.

Section 236.—Relocation allowances

This section provides that a worker certified for adjustment assistance and who as the head of a family is entitled to reimbursement of up to 80 percent of the necessary expenses incurred in transporting the worker, his family and their household effects to a new job. As already noted, the New York Chamber of Commerce & Industry believes that the relocation allowance should be made available to all workers who meet the eligibility requirements, not just the head of a household.

Sections 237 through section 246.—General provisions

These sections set up the administrative machinery to implement and subsidize a system of federal unemployment benefit standards as provided in Sections 231 and 232. The New York Chamber & Industry's opposition to such a proposal is spelled out in Sections 231 and 232.

TITLE III—RELIEF FROM UNFAIR TRADE PRACTICES

CHAPTER 1. FOREIGN IMPORT RESTRICTIONS

Sec. 301.—Responses to unfair foreign import restrictions and export subsidies

This section revises and expands the authority of the President under section 252 of the Trade Expansion Act of 1962 ("Foreign Import Restrictions") to retaliate with the imposition of import restraints on goods from a country that:

(1) Maintains unjustifiable or unreasonable tariff or other restrictions (including variable levies) which impair trade commitments made to the United States on which burden, restrict or discriminate against United States trade.

(2) Engages in unjustifiable or unreasonable discriminatory acts or policies such as non-tariff barriers, which directly or indirectly burden or restrict U.S. trade.

(3) Subsidizes its exports to third countries and thereby cause a substantial reduction in the sales of competitive U.S. exports to such countries.

It is noteworthy that import barriers against U.S. exports are highest in those same countries where our products have the greatest competitive advantage such as agricultural products and high technology goods. Generally, while the United States has taken limited steps to shield some agricultural products and certain industries, our import restriction policy has been relatively very limited vis-a-vis the policies of other industrial nations. It is an economic fact of life that if other trading nations persist in blocking the expansion of United States export trade, we will be unable to improve our mechandise trade balance which would allow us to lower our traiffs on their products.

Under Sections 301, in the elimination of such restrictions and subsidies, the President would be granted the discretionary authority to cancel any benefits of trade agreement concessions with any offending country. In addition, he could impose duties or. other import restrictions against the products of offending nations for as long a period as he deems necesssary.

The Chamber supports these provisions. In addition it makes special note of endorsement for two proposed changes in the Trade Reform Act of 1973 which strengthen similar but weaker provisions of the Trade Expansion Act of 1962. The first proposal would enable the President to retaliate in equal measure against unfair foreign import restrictions against nonagricultural products as well as agricultural products. Under the old law the President had wider authority to act against restrictions on agricultural products. Under the new proposal the President can take action against the import restrictions on any United States export.

The second proposal would provide the authority to retaliate against the practice of foreign nation subsidizing its exports to a third country in such a manner as tou ndercut United States exports to the third country.

The President would have the authority and weapons to take the necessary retaliatory action to correct this form of discrimination against United States exports.

In its support of section 301 of the Trade Reform Act of 1973, the New York Chamber of Commerce & Industry recommends that whenever possible any retaliatory action against foreign export subsidies be applied to the products of that industry whose exports the foreign government subsidizes. In this way our retaliation will have a more direct and devastating impact in alleviating the loss of export business on the part of the comparable U.S. industry.

It is also the sense of the Chamber that subsection (c) of section 301 should be amended to require that the President hold hearings both to allow interested persons to bring to his attention any foreign restrictions, acts or policies against U.S. products and hear testimony on any action the President proposes. As currently written subsection (c) of section 301 would leave the matter hearings up to the discretion of the President. In the interest of equity the necessity for hearings should not be a discretionary decision.

Summary of Position on Amendments to the Antidumping and Countervailing Duty Laws

Section 310

The New York Chamber of Commerce & Industry proposes the following recommendation. Amendments to the Antidumping Act should be deleted from the Trade Reform Act of 1973.

When the subject is considered on its merits, we recommend that:

1. The investigative phase of the fair value determination should be separated form the hearing or adjudicatory phase.
2. The investigative phase of the fair value procedure should not be subjected to rigid time limitations. Neither domestic nor importing interests desire or benefits from delay.
3. The adjudicatory phase of the fair value procedure should be completed in a specified time. Sixty days is adequate. The statute should provide a mechanism for handling confidential materials in fair value and injury proceedings which is consistent with due process.
4. Taxes applicable to goods sold in domestic commerce in the country of manufacture should be treated in the same way as taxes applicable to exported goods.
5. The "injury" test should be changed to require "material injury".
6. Treatment of "different circumstances of sale" should be codified.
7. The President should have authority to waive the imposition of antidumping duties when the national interest requires.

Section 330

The New York Chamber of Commerce & Industry proposes the following:

Amendments to the Countervailing Duty Law should be deleted from the Trade Reform Act of 1973.

When the subject is considered on its merits, however, we would agree that:

1. The President should retain authority to waive the imposition of countervailing duties when the national interest requires.
2. The test of "material injury" should apply in all cases—not only in connection with duty-free merchandise.
3. A hearing should be afforded.
4. There should be no arbitrary time limits.

Section 350

Under existing law, the President has discretion to direct the issuance of an exclusion order against articles marketed through unfair methods of competition after a Tariff Commission investigation and report.

The major changes here are to limit such cases to patent infringement to make procedures more analogous to cases involving domestic infringement and to provide fair protection to domestic patent holders in the event of delays. A companion bill will authorize the Federal Trade Commission to deal with other unfair methods of competition, such as monopoly pricing by international cartels which affect competition in the U.S. domestic market.

The Chamber of Commerce & Industry supports the provisions of Section 350. It should note that retaliation should be directed as much as possible against products benefiting from foreign subsidies, when that is the offense being met. It should recommend that Presidential action be taken only after hearings open to the affected parties.

Title IV—International Trade Policy Management

Section 401.—Balance-of-payments authority

This section authorizes a temporary import surcharge and/or quantitative limitation on imports to deal with serious balance of payments deficits or to cooperate in correcting an international balance of payments disequilibrium. Where appropriate this authority may be utilized on a non-MFN basis. The President is also authorized, in the case of a balance of payments surplus, to reduce or suspend tariffs and other import restrictions. He would be given full power to determine how long these measures would be applied, on which products and to which countries.

The New York Chamber of Commerce & Industry considers the expansion of Presidential authority to impose trade restrictions in order to correct balance of payments deficits, as both ineffective, and unnecessary since he already has substantial "Emergency Powers" in cases of balance of payments deficits.

In addition, the granting and usage of this authority regarding selective surcharges would, at this time violate our international obligations under GATT as follows: (a) actions which can be taken for reasons of balance of payments do *not* include a surcharge; (b) any allowable action, is required to be on an MFN basis, with no discrimination as to country or product.

Section 402.—Withdrawal of tariff concesssions

The purpose of this section is to make the President's authority to increase U.S. tariffs coextensive with the rights of the United States under trade agreements such as the GATT. The President is authorized to give domestic legal effect to actions taken pursuant to trade agreements withdrawing or suspending obligations or concessions, or terminating such agreements. Thus, for example, if the United States withdraws a tariff concession pursuant to its rights under GATT, the President can give domestic legal effect to this action by increasing the tariff on the article in question. This section also clarifies the President's authority to suspend trade agreement concessions without raising U.S. tariffs.

This section contains no authority to reduce U.S. tariffs or other import restrictions. The ceiling on tariff increases which may be ordered under this section is 50 percent *ad valorem*, or 50 percent above the Column 2 rate in the U.S. tariff schedules, whichever is higher.

Section 403—Renegotiation of import restrictions

This provides ongoing authority to the President to conclude modest trade agreements and to implement limited tariff reductions. No rate of duty can be reduced to a rate more than 20 percent below the then existing rate and in any one year agreements involving tariff reductions shall not affect articles accounting for more than 2 percent of the value of U.S. imports. The authority contained in this section will be of principal use after the expiration of the more general 5-year negotiating authority.

Section 404.—Compensation authority

In those cases in which the President unilaterally withdraws tariff concessions and increases duties, as, for example, in import relief actions, other countries have a right to demand corresponding concessions, failing which they can retaliate against U.S. exports. This section authorizes the President to offer such "compensation" to foreign countries, in the form of tariff reductions or modifications of other import restrictions. Rates of duty cannot be decreased to a rate below 50 percent of the then existing rate.

Section 405.—Suspending import barriers to restrain inflation

This section gives the President the authority to reduce import barriers temporarily as a means of restraining inflation during periods of sustained or rapid price increases. Adequate safeguards would be provided to ensure that actions taken under this section will not cause injury to any sector of the domestic economy or otherwise be contrary to the natural interest. The President's authority to reduce tariffs would be limited to cover not more than 30 percent of total U.S. imports.

Section 406.—Reservation of articles for national security

This section provides that no duty or other import restriction will be eliminated or reduced if such reduction or elimination would threaten to impair the National Security.

Section 407.—Most favored national principle

Under this section, any duty or import restriction, or duty free treatment shall apply to products of all foreign countries.

Section 408.—Authority to terminate actions

This section provides the President with authority to terminate in whole or in part any actions taken to implement trade agreements under this Act, Title II of the Trade Expansion Act of 1962 or section 350 of the Tariff Act of 1930 as amended.

Section 409.—Period of trade agreements

This section provides that every trade agreement entered into under Titles I and IV shall be subject to termination or withdrawal at the end of a period specified in the agreement but not more than three years from effective date for the United States. If it is not terminated or withdrawn at the end of such period,

it shall be subject to termination or withdrawal thereafter upon not more than six months notice.

Section 410.—Public hearings in connection with agreements under title IV

This section provides for public hearing *prior* to the conclusion of any agreement under section 403 or 404 and under section 402 or 408 within 90 days after Presidential action pursuant to a request by any interested person.

Section 411.—Authorization for GATT appropriations

This section authorizes annual appropriations for payments by the United States of its share of the GATT.

The Chamber of Commerce & Industry opposes the granting of authority to the President to raise trade barriers as a measure to "correct" balance of payments deficits.

We support other provisions of this Title, but the Chamber recommends that public hearings be mandatory prior to the implementation of any actions under this Title.

TITLE V—TRADE RELATIONS WITH COUNTRIES NOT ENJOYING MFN TREATMENT

Section 501–502.—Exception of the products of certain countries authority to enter into commercial agreements

These sections provide the President with authority to enter into bilateral commercial agreements and thereby to extend most favored nation treatment to imports from countries which do not currently receive such treatment, subject to a 90-day Congressional veto.

Section 503.—Additional provisions

Commercial agreements made under this section may include such provisions as those necessary to prevent market disruption: arrangements for protection of industrial rights, trademarks and copyrights: arrangements for the settlement of commercial disputes: and arrangements for the promotion of trade (promotion offices, trade fairs, missions, etc.)

Section 504.—Extension of most-favored-nation treatment

The President is authorized under this section to extend MFN Treatment to the products of a country with which the United States has entered into a bilateral commercial agreement, or which has become a party to a multilateral trade agreement to which the U.S. is also a party. The application of such treatment will be limited to the period of the commercial agreement or the multilateral agreement.

Section 505.—Market disruption

This section provides for Tariff Commission determination as to whether such imports have caused injury or market disruption (Escape Clause).

The New York Chamber of Commerce and Industry supports the Sections of this Title, which will authorize the extension by the President of MFN Treatment to Russia, The Peoples Republic of China and other centrally planned nonmarket economies.

TITLE VI—GENERALIZED SYSTEM OF PREFERENCES

Sections 601 through 607

Title VI grants the authority and presents the guidelines to be used in the establishment of an international agreement granting duty-free entry into industrial countries for manufactured and semi-manufactured goods exported from developing countries. The purpose of the generalized system of tariff preferences is to aid and encourage the economic development of the developing countries thru granting increased access to the markest of developed countries.

In granting the President authority to provide duty free treatment for specific products of developing countries it is necessary to waive the most-favored-nation provision. Article XXV of GATT authorizes such action.

The procedures and criteria for determining products for duty free preferential treatment are as follows:

1. The Tariff Commission must conduct an investigation and hearings to determine the anticipated effect on domestic industries.

2. The articles determined as eligible for duty free preferential treatment must be imported directly from the country that benefits from the preferential

tariff treatment. In addition raw material costs and production costs in the beneficiary country must be equal or exceed the percentage of the appraised value of the article at the time of its entry into the United States that the Secretary of the Treasury will prescribe.

3. Any article subject to any import relief measures under other provisions of this Act or other Acts or the national security provisions of the Trade Expansion Act of 1962 is ineligible for relief under the Trade Reform Act of 1973.

4. Any finding by the Tariff Commission of injury on an eligible article authorizes the President to terminate the preference to the beneficiary developing country. This type of action would automatically reinstate the most-favored-nation rate of duty to the articles of the beneficiary developing countries which had received preferential tariff treatment.

The criteria for determining which developing nations are eligible for duty-free preferential treatment on certain products is well defined under section 604. The New York Chamber of Commerce and Industry approves of all the guidelines listed. Furthermore that Chamber has a long standing policy in opposition to any preferential treatment to countries which have exproriated the property of United States nationals in violation of international law. Equally important is the provision in section 604, Title VI which provides that preferential tariff treatment would not be granted to countries that grant preference to other industrial nations unless they eliminate these reverse preferences by January, 1976.

Section 605, Title VI prescribes specific limitations on the extension of preferential treatment to the products of developing countries. It is the sense of the New York Chamber of Commerce and Industry that three proposals under Section 605 are necessary adjuncts to United States trade policy. They are:

1. The President should not have the authority to set an intermediate preferential tariff rate (between zero and the most-favored-nation rate) on any article from developing countries.

2. Preferential (duty free) tariff treatment would not apply to a particular product of a developing nation that supplies 50 per cent or more of United States import of that specific item or where the value of the import of this particular product was $25 million or more. This "competitive need" formula provides that preferential tariff treatment can be withdrawn on products of developing countries which are able to compete in international markets without preferential treatment.

3. All preferential treatment applications automatically expire in ten years or by December 31, 1984, unless an extension is authorized by Congress.

The longstanding and farsighted policy of the United States in providing economic assistance to developing nations has been beneficial to those nations and to the United States. For a great many years the United States has assumed the major burden of economic assistance to developing nations. The seed of our direct grant program has developed to the stage where the fruition of these investments must have access to world markets. Until the economies of the developing nations are able to compete fully in international markets it is the obligation and duty of the industrialized nations to provide a preferential market for their export products. Title VI of the Trade Reform Act of 1973 provides the authority for the United States to continue its longstanding policy of aiding developing nations to expand the economies while at the same time protecting competitive United States industries.

TITLE VII

The New York Chamber of Commerce & Industry supports the provisions of Section 706, subsections f and g, which repeal the prohibition of imports of seven furs and skins, the products of the U.S.S.R. and the Peoples' Republic of China and the Johnson Debt Default Act, which prohibits private persons from making loans to countries which are in default in the payment of their obligations to the United States.

Regarding Tax Treatment of Certain Foreign Income

In connection with the pending Trade Reform Act of 1973 the Treasury Department recommended three modifications with respect to the taxation of foreign source income:

1. Undistributed earnings of a controlled foreign corporation engaged in manufacturing or processing activities (income of which presently is not taxed until

it is repatriated to the United States), would be taxed currently in cases where the corporation enjoys foreign tax incentives.

2. Current taxation would also apply to the undistributed earnings of a controlled foreign manufacturing or processing corporation which produces for the U.S. market and which pays foreign corporate taxes at a rate that is significantly lower than the U.S. rate.

3. Foreign losses which are used by U.S. taxpayers as a deduction against U.S. income would have to be carried over to reduce the amount of foreign tax credit claimed by such taxpayers on foreign earnings in later years.

These recommendations have not been incorporated into the Trade Bill although there is some Congressional sentiment to do so. At present. statutory language is not available, only a description of the proposals prepared by the Treasury Department.

The New York Chamber of Commerce and Industry feels that it is not appropriate to consider these tax proposals jointly with the Trade Reform Act of 1973.

We further believe any proposed changes in the tax treatment of foreign income, a highly technical and complex part of the tax law, merit separate consideration. Moreover, such proposals cannot properly be analyzed in the absence of precise statutory language.

STATEMENT OF THE CALIFORNIA COUNCIL FOR INTERNATIONAL TRADE

Note: The California Council for International Trade is refraining from setting forth a section-by-section review and commentary on the bill, as this work has been done by other highly qualified groups such as Emergency Committee for American Trade, Committee for a National Trade Policy, American Importers Association and others. CCIT is attempting to bring out some of the more pressing and consequental points. Most importantly, CCIT wishes to bring to public attention the fact that a bill such as this is vitally necessary although certain modifications must be made to ensure that its use will always be in the national interest.

The California Council for International Trade endorses and supports the philosophy expressed in the Trade Reform Act of 1973. We believe that a trade act along the lines submitted by the Administration should be passed by both houses of Congress in the course of the year 1973. While we urge that certain safeguards against the abuse of executive power be written into the bill, and we believe that the bill can and should be strengthened by Congress, this should be done without detracting from the basic thrust of the bill, which is to bring about fairer and freer trade.

With specific reference to the President's power to adjust tariffs upward in case of market disruption or unfair trade practices against American exports on a country by country basis, we believe Congress would be well advised to write safeguards into the bill to ensure that such adjustments can be made only in cases in which the national interest is at stake and that they cannot be used as a tool to favor one or another industry for domestic political reasons.

We oppose provisions which provide for suspension of Items 806 and 807 (exemption from duty on American components of goods imported) as proposed in the bill. Adequate safeguards already exist under these items, and their suspension would weaken the competitive position of U.S. manufacturers.

One of the most important new authorities requested by the Trade Reform Act of 1973 (Title IV) would give the President authority to levy across-the-board surcharges or other means of import limitations to deal with balance of payments imbalances. There is serious doubt about the legitimacy of this title relative to our obligations under GATT. We urge that the right to impose surcharges should be tied to a serious imbalance in our *trade balance* rather than to our *balance of payments*. Experience has shown that it is possible to have a substantial trade surplus while running substantial payments deficits. We do not believe that trade should be made the whipping boy for government spending on overseas adventures or for other non-trade related balance of payments expenditures. Nor should a surcharge be imposed on goods from a particular country with which the U.S. is running a trade surplus at that time. Our own exports to that country would be jeopardized.

A major source of dispute within the Congress regards Title V, which would give the President the right to grant Most Favored Nation treatment (as well as withdraw same) for any country or product consistent with our national

security interests. Because we strongly feel that economic benefits or sanctions should not be tied with attempts to obtain political leverage, we oppose the Jackson-Mills-Vanick amendment restricting the President's right to grant MFN to any nation denying free emigration to its citizens. We believe this to be a form of economic blackmail which is contrary to the best interests of the United States. We feel that MFN should be granted or withheld solely on the basis of reciprocity so that any nation which does not discriminate against goods and services from the United States should not suffer discrimination against their goods in the United States. We urge that power be given to the President to grant MFN to any nation with a Congressional veto privilege as specified in Title V, but we also urge that Congressional approval be required for the suspension of MFN to any nation. We believe that the guidelines should be established that MFN should be granted to any nation which gives full reciprocity to U.S. goods, i.e., where there is no clear economic reason for not granting it, and that it should only be withdrawn in cases where there is clear and overwhelming evidence that a country is discriminating against goods from the United States. We oppose attempts to wring political concessions from other countries through granting or withholding MFN because it is: 1) on a purely pragmatic basis, mostly unsuccessful; 2) rarely if ever in the broad national interest; 3) usually an unwarranted interference in the internal affairs of another nation, a form of interference which we would utterly reject if any nation attempted to apply it to the United States and 4) a form of economic blackmail which is demeaning to both the nation which practices it and the nation to which it is directed.

STATEMENT OF JOHN P. LABORDE, PRESIDENT, AND PAUL A. FABRY, MANAGING DIRECTOR, INTERNATIONAL HOUSE, NEW ORLEANS, LA.

International House, a Louisiana trade promotion organization with a business and professional membership of 2500, has been a proponent of free trade ever since its inception in 1943. Working in conjunction with its sister organization, the International Trade Mart, and the New Orleans Board of Trade which has also officially endorsed the following statement, International House *strongly opposes protectionist legislation* which in the last analysis merely addresses itself to the symptoms, but not to causes, of imbalances in international trade and payments.

At the time that Congress is being subjected to strong pressures by organized labor and other special interest groups on behalf of the protectionist Burke-Hartke Bill and punitive taxes on foreign investments, International House believes that these combined with mandatory quotas on imports could only lead to retaliation against our exports and the effect on world trade would be disastrous.

Governor Edwin Edwards, in a statement proclaiming May 20–26, 1973, as World Trade Week in Louisiana, in connection with the President's Trade Reform Act of 1973 said: "Its enactment will enable the United States to enter the international trade negotiations later this year with the tools we need to achieve fair reductions in trade barriers, to help build a new international economic order and to advance our interests within it".

Joining International House and other Louisiana trade-related groups which have stressed the need for revamping of monetary and commercial systems now in existence, the Governor added: "Expanded trade must be achieved within the context of an international economic system which is fair to all participants".

Further elaborating on the trade legislation proposals now before Congress, the International House statement, approved by its 35-member Executive Committee, pointed to facts of geograph and tradition which have combined to make New Orleans the nation's second port in world trade and the city's vital dependence on the free flow of goods and services.

Representing the aggregate business community of this area, International House has already urged the Louisiana Representatives in Congress to *support a legislation which in turn supports a liberal policy and oppose that protectionist legislation which would hinder it*, for in the long run restrictive policies will not be in the best interests of the majority of the people or of the expansion of the American economy.

Thus, International House believes that the legislative proposals submitted by the President to Congress, while providing for flexibility in negotiations and protection against unfair competition during periods of adjustment, promise

to seek as liberal a worldwide trade posture for this country as our major trading partners will accept for themselves.

STATEMENT OF CAPT. J. W. CLARK, PRESIDENT, INTERNATIONAL TRADE MART OF NEW ORLEANS

The International Trade Mart of New Orleans, dedicated to the development, promotion and maintenance of trade and commerce between the people of the USA and the people of the other countries of the world, particularly the other American Republics, joins its sister organization, International House, in strongly endorsing the principles of a liberal trade policy based on equitable and reciprocal terms and conditions.

Recognizing that a free flow of trade is mutually beneficial to all nations, the International Trade Mart respectfully draws attention to restrictions on the free flow of trade between the United States and third countries, principally those countries with ties to member countries of the European Common Market, and the unique restrictions imposed by Japan. In this context, the International Trade Mart strongly endorses Title VI of the proposed Trade Reform Act of 1973, which would corrrect present inequities adversely affecting U.S. foreign trade.

International Trade Mart supports basic trade legislation which provides for a fair and equitable treatment of United States exports on the same terms as are enjoyed by other developed nations. To this end, we support legislation which would provide *leverage* in combatting discriminatory treatment of United States exports in world markets. Such leverage might take the form of special preferential tariff treatment extended unilaterally by the United States to developing countries. Alignment of the United States with the free countries of the Western Hemisphere, New Zealand and Australia could also provide effective *leverage* to attain mutual objectives.

International Trade Mart supports the inclusion of authority for the United States to take action to meet serious balance-of-payments situations as contained in Title IV. The United States should have the authority to control the volume of imports into the United States particularly where obstacles have been raised which restrict the free flow of United States exports. Only by exerting the *leverage* of retaliation in like manner can United States exports enjoy equal and equitable privileges in world markets.

In conclusion, International Trade Mart generally endorses the Trade Reform Act of 1973, but with appropriate inclusion of provisions designed particularly to attain an effective bargaining positions with the European Common Market, Japan, COMECON and other major trading blocks.

NATIONAL CUSTOMS BROKERS & FORWARDERS ASSOCIATION OF AMERICA, INC.,
Washington, D.C., June 19, 1973.

We should like to call your particular attention to the attached statement that was submitted to the House Ways and Means Committee by the President of the National Customs Brokers & Forwarders Association of America on the proposed Trade Reform Act of 1973.

Specifically, on pages four thru seven, a few matters are outlined that have received little or no attention in the testimony of others. They are:

1. The subject of not converting our tariff system without the direct consent and express approval of Congress.
2. Several serious unfair international trade practices which are not as visible as the ones to which the Administration has addressed itself in Title III of the proposed act.

Should you have any comments or questions, please do not hesitate to let us hear from you.

Yours sincerely,

M. V. ROSENBLOOM,
Director of the Washington Office.

Attachment.

STATEMENT OF LEONARD M. SHAYNE, IN BEHALF OF THE NATIONAL CUSTOMS BROKERS & FORWARDERS ASSOCIATION OF AMERICA, INC.

Mr. Chairman, members of the Committee, my name is Leonard M. Shayne. I am President of the National Customs Brokers & Forwarders Association of America, Inc., located at One World Trade Center in New York City. I also have had the privilege of serving as Chairman of the Customs Committee of the American Importers Association for many years.

The National Customs Brokers & Forwarders Association of America is the nationwide trade association for those U.S. firms which act as customs brokers, ocean and air freight forwarders, and international air freight sales agents. Founded in 1897, the association has more than 400 direct members in the United States and associated members throughout the world. The organization is also an association of associations, composed of 17 regional and local associations located throughout the United States.

The National Customs Brokers & Forwarders Association of America concurs with the aim of the proposed Trade Reform Act to provide the authority required to begin a new round of international trade negotiations directed at reducing tariff and nontariff barriers. We support this initiative but have serious reservations about some of the provisions advanced by the President as needed to achieve the desired objectives. We are convinced, for example, that the Congress should limit the President's authority to increase tariffs or to take precipitous actions in trade matters. A brief reference to our views on this and related matters will be provided after setting forth a few pertinent facts about the members of our industry.

Our interest in helping to expand international trade is inherent to the type of services we render. Customs brokers and foreign freight forwarders are generally small businessmen who play a significant role in reducing the complexities of international trade for their export and import clients. As stressed in the August 1971 issue of *Nation's Business:* "Their expertise releases importers' and exporters' staffs for their major role of merchandising."

The members of our industry are not direct carriers of freight. The work they perform in the field of foreign commerce—basically, the facilitation and coordination of all shipping services—is a role equal in importance to the one performed by the direct carriers. Though our role is frequently not understood, it is nonetheless crucial—with approximately 80 to 90% of all U.S. imports and exports being handled at some point by members of this industry acting in one or more of their capacities.

Importing and exporting are highly complex businesses dealing with complicated governmental procedures at both ends of the production and consumption process—as well as with unavoidable problems resulting from the distances involved and the differences existing between peoples and places. Our industry provides the expertise and services which make it possible for U.S. importers and exporters to pursue their businesses despite these obstacles. Obviously, we have a vital self interest in maximizing the flow of international trade. Beyond this self interest, however, each of us believes that the well-being of the people of the United States is inextricably founded on this same need.

We shall not argue this point here because, despite the strong pull of protectionism upon the emotions of many in our country, we believe that this Committee and Congress have a sufficient understanding of economics and of world politics to realize how damaging such a course would be for the United States of today.

The Trade Reform Act of 1973 is a request for the most sweeping delegation of power in the trade field ever requested. If granted, it could result in the greatest reduction in our tariffs and other trade barriers in history. On the other hand, it could result in the imposition of the highest tariffs and the most restrictive trade controls in our history. It seems unthinkable that Congress could enact such legislation retaining no role in its implementation and without expressing a very clear statement of its intentions.

Our interest and expertise is in the area of *procedures.* We urge that no action taken under the bill be without adequate prior opportunity for comment by interested persons. We especially urge that no imposition of new restrictions or new procedures be made without adequate notice. Many sections of the proposed bill do not provide for these elemental safeguards of our democratic process. The precipitous imposition and even the precipitous removal of the duty surcharge

in August and December 1971 were calamitous. The surcharge may have been necessary but the procedure of imposition was so hasty that numerous revisions were necessary to relieve unnecessary and undoubtedly unintended injustices.

In general, we believe that the American Importers Association's recommendations regarding the bill are statesmanlike and deserving of the most serious consideration by you. We invite particular attention to the comments which they made concerning quotas (and we include both "voluntary" as well as imposed). As the American Importers Association stressed, quotas are the most restrictive and pernicious form of trade control and the most to be avoided by a Government which wants to be fair to its consumers as well as to its producers.

In the interest of brevity, I shall not list nor elaborate upon a number of points raised by the American Importers Assocation and others that have testified with whom we are in agreement.

One matter, however, which has received relatively little attention merits mention. I refer to a study being made currently by the Tariff Commission, at the direction of the President. It pertains to whether the Tariff Schedules of the United States (TSUS) should be modified to bring them into conformity with the Brussels Tariff Nomenclature system (BTN).

This is a subject with which we are in daily contact, and with which we have a considerable amount of experience. We would hope that converting our tariff system would be the subject of separate legislation and that the President would not use the authority he seeks under Section 103 of the Trade Reform Act on changing customs valuation methods or the authority in Section 708 on simplification and modification of the tariff schedules to bring about this transformation administratively. Since this matter is quite important, we hope that the Congress will make it clear in the legislation now being considered that the President should not attempt this change without the direct consideration and express approval of Congress.

We are convinced that conversion to the Brussels Tariff Nomenclature could bring about many unintended disadvantages unless Congress builds in sufficient safeguards to prevent them. For one thing, the conversion would raise the effective tariff on a number of products. In the case of price-sensitive items, this could be a hardship, possibly a disaster. For another, within any given product area, while the overall change might be modest, the impact on individual importers could be enormous. We are aware of at least one instance in which the range of such impact could run from 10 percent for one importer to as much as 1,000 percent for another. This situation arises because, in converting from specific to ad valorem rates, some components vary greatly in their value, even though they perform the same functions.

We would hope, therefore, that administrative discretion be limited so that all importers are treated fairly, including the ones whose tariffs might suddenly soar and whose competitive positions might suddenly and seriously be endangered. Only Congress can provide legal protection against this undesirable possibility by keeping the right to grant approval for such proposed changes.

Another topic on which we can shed some highly specific light is the issue of unfair international trade practices. We would like to point out that not all the unfair practices are as visible as the ones to which the Administration has addressed itself in Title III of its bill. There are some that we face in our own industry which we feel have a definite but largely unknown impact on U.S. international trade.

The gist of our point here is that European and Japanese customs brokers and foreign freight forwarders are permitted to operate in ways that are not legally possible for us and some have developed "captive" subsidiaries in the United States. As a result, these companies are in a position to lower the price of services rendered and products imported into the United States which intensify, we think unfairly, the competition with their counterparts in this country.

It is relevant, at this juncture, to express a view which we stressed in a statement to the House Select Committee on Small Business last year and which we included in a presentation made to the members of the Civil Aeronautics Board on November 16, 1972. In our proposal of "An Action Plan to Save U.S. Participation in Its Own International Air Trade," we stated:

"We want to make it clear that the NCBFAA does not oppose competition, either domestic or foreign, for intense competition is the overriding characteristic of our industry. Neither is the NCBFAA a proponent of trade barriers, and as experts in the import-export business our members are committed to the principle that the free flow of international commerce should be encouraged. Our

fear, however, is that certain policies of the government will—and, in fact, currently do—facilitate foreign dominance and thereby discourage the development of U.S. participation in foreign trade . . . ."

"Because of a loophole in the Tariff Act of 1930, any company, U.S. or foreign, can be licensed as a customs broker if it has two 'officials' who hold individual licenses. This opens the door to foreign shipping companies, few of which have failed to take advantage of it, and the irony of a Japanese or European firm performing the task of clearing imports through U.S. Customs is as painful as it is obvious. The loophole in the Shipping Act of 1916 is even wider, with fitness, not citizenship, the only test; and, as a result, many of the major foreign shipping companies now hold licenses as independent ocean freight forwarders."

In the case of ocean and air freight forwarders, moreover, U.S. firms are prohibited by law from any inter-relationship with shippers and also are not permitted to have any financial interest in the shipments they handle. Overseas-based firms, however, are frequently linked up with huge transport companies and can benefit from a financial interest in the goods shipped. The U.S. foreign freight forwarder simply cannot compete with hundred million dollar foreign companies that are organized in a way to avoid the laws, the regulations, the freight rates, and the taxes to which we are subject.

In the case of customs brokers, we are faced with a virtual invasion by European and Japanese companies that have moved into our industry by circumventing the clear intent of Congress when it enacted the law which requires that only U.S. citizens be licensed. A foreigner should not be able to become a citizen by hiring a citizen. But that is what has happened. The result from the actions of these "captive" companies, in which unlicensed non-citizens have taken controlling interest in customs brokerage firms, is to provide an additional unfair competitive edge to the overseas exporter into our market and to the foreign transporter.

While we are opposing this development through the proper administrative channels, it is important to mention it here because for U.S. import practices generally this development poses a challenge to pricing that cannot be neglected. What we recommend is that the Committee include in its consideration of unfair trade practices some means of controlling the inherently unfair competitive methods utilized by these overseas-based foreign freight forwarders and foreign-controlled U.S. customs brokers.

One other matter that I would like to repeat very briefly is the need to prevent the abuse of executive discretion. We feel that several proposals in the Administration bill could open the door to such abuse and to hasty actions triggered by political pressures. We have in mind the provision involving imposition of an import surcharge for balance of payments purposes, the option of introducing quotas to restrain imports, and the market disruption formula. It is vital, as indicated earlier in this statement, that such steps as imposing quotas or surcharges be taken only after suitable hearings are provided which give all interested parties their day to be heard.

Finally, we would like to point out the importance of this legislation to our own industry. It is common to think of exports and imports in the aggregate, which means in terms of huge sums—probably more than $120 billion this year. While that kind of figure is meaningful for an economist working with broad trends, it is important to realize that our own industry, which is wholly reliant on the maintenance and growth of international trade, is composed almost entirely of small firms. While we make up in expertise what we lack in size, our companies are characterized by the definitions and criteria utilized by the Small Business Administration. Keeping the gates open to trade is, therefore, not an abstraction but an everyday reality for us. Like most small businesses, our margins are not large and the level of trade is thus a barometer of the health of those margins. We trust that this Committee will ensure that U.S. foreign commerce will have the opportunity to expand. In this way our small industry, as others deeply committed to the healthy growth of fair and reciprocal international trade, can survive and prosper.

CAPROCK DEVELOPMENTS, INC.,
Morris Plains, N.J., June 4, 1973.

COMMITTEE ON WAYS AND MEANS,
U.S. House of Representatives,
Washington, D.C.
(Attention John M. Martin, Jr., Chief Counsel).

DEAR SIRS: This letter pertains to the limit on the value of imported merchandise which may be cleared through U.S. Customs under informal entry procedures, and the discretionary power vested in the Secretary of the Treasury, under Section 408 of the Tariff Act to raise this limit. All of this pertains to the forthcoming trade reform hearings scheduled by the Committee on Ways and Means this month.

Under Treasury Decision 53336, the limit of informal entries was raised to $250.00 in 1953. There has been no change since that time. The effect of inflation on the level of prices during these past twenty years has been to raise prices to such an extent that considerably fewer units of merchandise having an aggregate value of $250.00 can be transported in a single shipment for Customs clearance under informal entry.

It is preferable to use the Post Office for the means of transport, and informal entry, because the shipments come to us simply, fairly quickly via air parcel post, and delivered to our door by the Postman. There is a minimum of red tape, minimum Customs handling, and minimum cost, because no customs brokers are needed, and no truckers or carton openers are involved.

To maintain our volume of business, which involves the sale of halftone screens for use by printers and newspapers all over the country, and yet by-pass the restrictions of under $250 in value per shipment per day, under informal entry we now split our orders to our supliers into a number of smaller parts, limited to under-$250, for shipment to ourselves on successive days. This procedure now results in the processing of multiple shipments by the Bureau of Customs and the Postal Service.

Under a higher value-per-shipment basis, more units of merchandise can be packed into a single shipment, and fewer packages would have to be handled. For the Postal Service, a greater revenue per package would result. For the Bureau of Customs, fewer packages would have to be processed.

This situation has occurred, and now exists to plague small business firms, solely because the $250.00 limit on informal entries has not kept pace with inflated prices.

The Assistant Secretary of the Treasury has stated in the past that any substantial increase (of the limit) would seriously erode the quality of import statistics gathered by Customs and published by the Department of Commerce, despite the acknowledgment that operational benefits would accrue to Customs if the limitation were increased. (Letter dated Sept. 21, 1972, to Ways and Means).

The Assistant Secretary's thesis that the quality of import statistics would be eroded might have been valid more than ten years ago, under the then existing Tariff Schedules of the United States. With the enactment of the Tariff Classification Act of 1962, the classes of commodities were broken into several thousand categories, each numbered and subjected to computer printout and correlation. There has never before been such a wealth of quality, quantity and detail of figures available on import statistics.

I believe that the need for reducing the work load of the Bureau of Customs and the Postal Service, the need for reducing cost and eliminating waste and duplication of effort far outweigh the need for any higher quality of an already high quality statistic.

I urge that you direct your efforts toward rasing the limit on informal entries so as to secure the obvious benefits that are at hand.

Yours very truly,

SEYMOUR SCHWARTZ,
President.

STATEMENT ON BEHALF OF THE LEGISLATIVE PROGRAM COMMITTEE, AMERICAN ASSOCIATION OF UNIVERSITY WOMEN

The most recent biennial convention of the American Association of University Women took place in Washington, D.C. between June 17 and 21.

On June 20th the following section on foreign policy was approved by a unanimous vote as a part of the Association's legislative program.

AAUW recognizes the interdependency of nations. We support a constructive foreign policy that seeks to develop national and international economic, social and political security. To gain these objectives we support:

1. U.S. participation in and continued support of the United Nations and its affiliated agencies.
2. U.S. ratification of the Human Rights Conventions.
3. Continued development of normal diplomatic relations with the People's Republic of China.
4. Equitable trade policies.
5. Effective foreign economic aid to developing states with increased emphasis on the use of multilateral agencies.
6. Cultural and educational exchange programs.
7. Measures leading to mutually supported control and limitation of armaments.
8. International cooperation in the development and utilization of world resources with particular regard for the energy crisis and energy conservation.

A number of the members of the Ways and Means Committee know of the Association's long commitment to study of and support for foreign policy issues which goes back to the period before World War I. For those members unfamiliar with our organization, AAUW work in the interest of liberal U.S. trade policy dates back to Smoot-Hawley days. As an organization we represent a wide cross section of opinion endorsing continuation of a non-discriminatory or multilateral system of trade.

We do so in the belief that an even broader and more open trade policy than that of recent years is necessary in this period of increasing global interdependency.

We believe such a position would promote economic development in both industrialized and the less developed countries; would work to relieve political tensions; ensure access to the raw materials essential to U.S. industry as well as provide markets for the productivity of this country.

We are not unaware that some industries are harmed by imports or are unable to adjust to competition. Our position is, as it has been for some years, one of opposition to quotas and other barriers to open trade—but to support for adjustment assistance. We are aware that the present program of assistance to individual firms and workers has not been particularly effective, and therefore will support this Committee in its efforts to provide equitable treatment in the form of job training, job search allowances, relocation assistance and employment services for workers whose means of livelihood would suffer from any change in import restrictions.

We support the Committee in its efforts to amend anti-dumping and countervailing duty laws and to provide speedier investigations and decisions.

We support the provisions of the legislation before the Committee which would provide permanent authority for action on balance of payment and anti-inflation problems.

We also support extension of most-favored-nation treatment to countries which currently do not receive such treatment but we urge the Congress to retain power of review and veto in the bill which it reports.

AAUW is strongly in favor of extension of tariff preferences to imports from developing countries in the belief that the national interest, indeed the welfare of the United States—like that of other industrialized nations—is irrevocably linked through trade, investment and access to raw materials to the welfare of the developing countries.

We are somewhat concerned about the sweeping authority to impose trade barriers requested by the Administration and over the permissiveness of the criteria for invoking trade restrictions which the Administration has submitted.

We would like to see international standards set through the GATT or possibly the International Monetary Fund with respect to the use of authority for retaliation and balance of payment purposes.

In conclusion we wish to say that in our opinion and in the face of the current trade talks, it is essential to provide the President with the authority to enter into trade agreements and to provide for modification of duties.

As consumers the members of the American Association of University Women believe they have a large stake in the kind of trade bill enacted. To protect the interest of the consumer we urge this Committee to include provision for a consumer representative on advisory bodies, on the Tariff Commission, on the White House Council on International Economic Policy, wherever matters of

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adjudications, negotiations, interpretations or determinations are under consideration, and on the U.S. team at GATT.

(Submitted by Mrs. Russell Wallace, Area Representative for International Relations, and Mrs. Sherman Ross, Chairman, Legislative Program Committee.)

JOINT STATEMENT OF HARVEY KAYE, WASHINGTON, D.C., AND PAUL PLAIA, JR., SILVER SPRING, MD.

(This Statement is Limited to Section 350 of The Proposed Legislation and Supports Passage with Certain Proposed-Changes)

Personal

Harvey Kaye, whose office address is 1920 L Street, N.W., Washington, D.C., is an attorney and is registered to practice before the U.S. Patent Office. His statement is submitted on his own behalf. This statement is not made on behalf or at the request of any person or organization. However, the law firm of Spencer & Kaye, in which he is a partner, has a substantial number of foreign clients who it is believed, may benefit from the changes proposed herein, although this statement is not being made at the request of any client of the firm.

Paul Plaia, Jr., whose office address is 11141 Georgia Avenue, Silver Spring, Maryland 20902, is a partner in the law firm of Plaia & Leath and is submitting this on his own behalf. It is not made on behalf or at the request of any person or organization. He was formerly with the General Counsel's Office, U.S. Tariff Commission, Washington, D.C.

The opinions expressed herein are those of these writers and not necessarily those of the Tariff Commission or any individual Commissioner.

We have particular interest in this section of the proposed bill because we have written an article concerning present section 337, which will appear in two parts in the June and July, 1973, issues of the Journal of The Patent Office Society. The June issue has just been published.

Outline of Statement

I

Recommendation that paragraph (a) of section 350 be changed so there is only a violation if patent infringement is accompanied by economic injury and that provisos (1) and (2) of paragraph (c) be deleted, and a possible alternative suggested.

II

Reasons why these changes should be made.

III

Comments concerning other sections of the statute (most of which are favorable).

Text of Statement

I. RECOMMENDATION FOR CHANGE IN SECTION 350

Paragraph (a)

It is suggested that paragraph (a) be amended in order to assure that there would only be a violation if patent infringement is accompanied by economic injury of the type which is set forth in present section 337.

Paragraph (c)

It is believed that the provisions concerning validity and misuse should be deleted, and a possible alternative is suggested below.

II. REASONS

Reason for changing paragraph (a)

In order to place section 337 into proper context, it must be remembered that this section was to provide relief in extraordinary situations. Mere patent infringement would not be this type of extraordinary situation. It should be con-

sidered from a tariff rather than a patent infringement viewpoint and as such injury should be considered.

It should be noted that the grounds for obtaining a temporary exclusion order appear to be less severe than that for obtaining a preliminary injunction in court, since whereas irreparable injury is needed for a court preliminary injunction, only immediate and substantial harm is needed for a temporary exclusion order. This tends to reinforce the point mentioned above. Thus, this remedy is an extraordinary one and should be limited to extraordinary situations.

Mere infringement does not call for extraordinary relief since there are suitable judicial remedies available in the courts. It has been argued previously that section 337 is needed to prevent a foreign manufacturer from switching to a different importer each time a patent infringement action is filed against one of its importers. While this has sometimes occurred, e.g., in *Furazolidone* F.I., Tariff Commission Publication 299, November, 1969, it has occurred only rarely and, when it does occur, then undoubtedly economic injury to the complainant can usually be shown so that our proposed change will still provide the desired protection. A patent owner has his remedies in court and can enforce his patent against importers whatever be the federal court district in which they reside. Moreover, the second in a series of court actions may be less burdensome if the patentee could show that the product is identical to a previous product which has been held to infringe a valid patent in another federal district court since *stare decisis* is then on the patentee's side. Also many manufacturers provide patent indemnity to their customers and importers charged with infringement may have foreign manufacturers come to their rescue. In such events, whether or not the foreign manufacturer is an actual party to a patent infringement action, it may well be bound by the court's decision. *Tidewater* v. *Kitchen*, 421 F.2d 680, 164 U.S.P.Q. 385 (4th Cir. 1970).

However, when economic injury to a domestic industry is an issue, then an extraordinary remedy appears to be appropriate, since this brings it into the traditional approach of tariff law. It appears that in the usual case it is presently less expensive for a patentee to proceed under section 337 in the Tariff Commission than to file a court action. Moreover, the Tariff Commission appears to arrive at its conclusions more quickly than a court apparently due to certain protections built into court actions which some people believe are not needed in a Tariff Commission action.

Reasons for changing paragraph (c)

It is believed that validity should be considered in this type of action. However, this issue should be considered in the first instance at the Tariff Commission level when the Commission believes this is appropriate in a particular case. As the bill is proposed it would apparently legislatively prohibit the Tariff Commission from considering the issue of validity since the Tariff Commission is instructed to follow court action on this issue.

It appears inappropriate to provide the Commission with authority to consider questions of infringement (which are usually mixed matters of both fact and law) but to prohibit it from considering questions of validity (which are also usually mixed matters of both fact and law).

The Tariff Commission apparently already has the technical expertise required since its staff includes people with scientific and engineering backgrounds. If it does not already have patent attorneys on its staff, it should not be too difficult to hire them. Thus the Tariff Commission is or can easily be readily equipped to undertake validity considerations.

Furthermore, it appears that the Tariff Commission already has authority under present section 337 to consider validity, older Court of Customs and Patent Appeals cases to the contrary notwithstanding. The recent trend in opinions of this court lead us to believe that were the Court of Customs and Patent Appeals to consider section 337 today, it may well hold that the Tariff Commission has authority to consider patent validity.

This would be on the basis that if the Tariff Commission believes it is necessary to consider patent validity in a particular case in the course of its statutory jurisdiction, then it should do so. Because one decision the Tariff Commission must make is the same as would be made by a court of general jurisdiction in an infringement suit does not mean it is precluded from making it. Although 28 U.S.C. 1338 provides the federal district courts with original jurisdiction over infringement (and validity) actions, the state courts clearly may pass on the validity of a patent if it is necessary to do so in the course of deciding

a case over which they do have jurisdiction. *Pratt* v. *Paris Gas*, 168 U.S. 255 (1897).

A Tariff Commission report or finding on validity should have no more influence in a federal district court on this issue than presently a state court's opinion on validity would have on a federal district court.

Furthermore, if in a particular case the Tariff Commission felt it in appropriate to consider validity, it could simply not consider the issue.

Change in paragraph (c)

Since a consideration of issues such as validity and misuse may delay the Tariff Commission's ability to otherwise arrive at its conclusions rather promptly, paragraph (c) should provide that in cases where the Commission believes (1) these issues should be considered, (2) such consideration would otherwise delay it decision upon patent infringement and economic injury, and (3) in the absence of such considerations the Tariff Commission would find infringement and injury and would issue a permanent order of exclusion, then a conditional order of exclusion may be issued providing for entry under bond as provided in the proposed bill until the other issues have been considered by the Tariff Commission and the conditional nature of the exclusion order changed.

III. COMMENTS CONCERNING OTHER PARAGRAPHS OF SECTION 350

1. We believe that it is an appropriate change to provide that the Commission makes findings and orders exclusion directly without submission to the President. In addition to expediting matters, it seems clear that the Commission has the appropriate expertise to do this. Furthermore, this provides the beneficial result that the previously questioned jurisdiction of the Court of Customs and Patent Appeals should be made fairly certain. (In this connection, reference is made to *Glidden* v. *Zdanok*, 370 U.S. 530 (1962), in which the Supreme Court held that the Court of Customs and Patent Appeals was a constitutional court, meaning that its jurisdiction was limited to cases or controversies. Under section 337 the Tariff Commission findings are investigatory and adviory and therefore there is question as to whether they would be considered cases or controversies to provide the Court of Customs and Patent Appeals with jurisdiction. However, when the Commission makes findings and issues orders itself, then this would appear to clearly be within the definition of cases or controversies and thus provide proper appellate review in the Court of Customs and Patent Appeals.)

2. The new section provides a more equitable bonding provision and this is believed to be rather desirable.

3. Also, for the first time, an appeal is provided for the complainant as well as for the importer, and this also is believed to be desirable.

* * * * * * *

Should the Committee have any questions concerning this statement, we will be pleased to answer them.

Respectfully submitted.

U.S. Multinational Firms and the Exportation of U.S. Jobs, Capital and Technology

(By William L. Casey, Jr.)

In assessing the total impact of U.S. multinational firm operations abroad on the general welfare of the U.S. economy, logic dictates that a balanced view must be taken of relative costs and benefits. As in the case of free trade, the free flow of direct investment capital between nations produces a trade-off; individual countries benefit but not without cost. The internal political decision to support *or* restrict capital improvements abroad must be preceded by a careful analysis of current international economic conditions or circumstances which determine whether a country's interests on balance will be served best by the promotion of freer capital flows or by a restriction of the same.

It is relatively easy for proponents of the Burke-Hartke bill to cite specific examples of how the U.S. multinational firms militate against special segments of the U.S. economy. Conversely, opponents have no difficulty in structuring a defense by citing specific benefits. Isolated arguments, however, are of little value

to public policy makers *unless* the relative merits of opposing views are examined in such a way as to determine in which direction the scales tip.

First of all, it must be recognized that the impact of U.S. direct investment abroad on the U.S. economy is ambiguous. The primary, superficial effects are clearly discernible but the secondary and tertiary effects are not. The purpose of this paper is not to resolve all of the complex issues that have emerged from recent congressional hearings and other public debates on those aspects of the Burke-Hartke bill relating to multinational firm operations; rather, it is to shed light on the complexities and ambiguities of such issues and to expose the superficiality of some testimony to date particularly from the proponents of the aforementioned bill.

U.S. MULTINATIONALS AND THE EXPORTATION OF CAPITAL

It is undeniably true that new foreign investments made by U.S. multinationals abroad may serve as a short-term source of U.S. balance-of-payments disturbance. Furthermore, it is reasonable to expect that financial managers of U.S. subsidies abroad will honor their responsibilities to stockholders during periods of foreign speculation against the dollar by engaging in hedging operations designed to prevent corporate asset depreciation. Clearly, U.S. multinationals have contributed to pressure on the international dollar during recent crises through the conversion of corporate-owned dollars into harder currencies. However, despite the validity of these contentions, it does not follow that U.S. balance-of-payments and international dollar difficulties are ultimately traceable to U.S. multinational firm operations abroad. Indeed there is reason to believe that harsher restrictions on the same would eventually serve to compound our international financial problems.

The reasons for the erosion in foreign confidence in the dollar, and the accompanying loss in value, are simple, not complex. Speculative crises have been spurred by the flooding of foreign exchange markets abroad with dollars which, in turn, has resulted from persistently large U.S. balance-of-payments deficits. If indeed it can be demonstrated that U.S. multinationals through their direct investments are responsible in total or in part for U.S. balance-of-payments deterioration during the past decade, then the condemnations of multinationals by Burke-Hartke proponents are justifiable. However, this is not the case.

Admittedly, spurts in new direct investments abroad over a short period of time can produce temporary disequilibria in external balance, but deterioration in the U.S. balance-of-payments posture has been a long-term phenomenon dating back to the late 1950's. Over the long term, the balance-of-payments effects of foreign investment programs tend to be favorable in the absence of artificial capital controls. The conclusion that repatriated earnings, royalties and fees from past foreign investments eventually grow in excess of new investment outlays is both theoretically and empirically verifiable.[1] Recognition of the same has prompted both economists and members of Congress to condemn the U.S. direct investment controls of 1968 since their inception. The following position statement is typical:

"Restriction of U.S. direct investment abroad must eventually undermine this country's balance-of-payments position through a decline in profits and dividends from abroad, through a drop in earnings from the sale of technology and managerial services, and through a loss of exports to subsidiaries and to foreigners making purchases through U.S. dealer-subsidiaries."[2]

Proponents of the Burke-Hartke bill may argue that U.S. multinational firms are exporters of capital but they may not argue with validity that these firms are *net* exporters of capital. In our balance-of-payments experience surpluses on long-term capital account reveal quite the opposite. Historically, the net direct foreign investment income generated by our multinational firms has been a strong positive element in our balance of payments. To restrict the operations of multinationals, therefore, is to restrict the net inflow of repatriated earnings which currently is serving to offset, in part, trade deficits and other payments difficulties.

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[1] For a theoretical treatment see Norman Buchanan, *International Investment and Domestic Welfare*. New York: Holt, 1945, pp. 167–172 and Evsey D. Domar, "The Effect of Foreign Investment on the Balance of Payments," *Essays in the Theory of Economic Growth*. New York: Oxford University Press, 1957, pp. 129–153.

[2] Report of the Joint Economic Committee, Congress of the United States on the January, 1970, Economic Report of the President, House Report No. 91–972, 91st Congress, 2d Session, 1970, p. 49.

Nevertheless, enthusiasm about the positive aspects of direct foreign investments must be tempered by political reality. In an atmosphere of free capital flows our multinationals will contribute positively to our balance-of-payments position. Unfortunatley, however, restrictions may come from the other side. If the policies of a few foreign countries today—designed to limit the transfer of subsidiary earnings back to the U.S. or to restrict the importation of goods by subsidiaries from U.S. parent companies—become universal, then the positive effect of our direct investments on our balance of payments will soon disappear. Under such conditions it may become necessary to retaliate in order to protect our balance-of-payments interests. Unfortunately, in a foreign investment war, as in the case of a trade war, there will be no ultimate winners. The temptation to impose harsh capital restrictions or to impose tax penalties on U.S. multinationals should be resisted unless there is a total breakdown in international cooperation.

U.S. MULTINATIONALS AND THE EXPORTATION OF JOBS

The impact of U.S. direct investments abroad on domestic employment is clearly a more emotional issue than the broader balance-of-payments implications. Obviously, firms that invest abroad create jobs abroad and, assuming a fixed corporate investment capacity, it is reasonable to conclude that foreign investments compete with domestic investments. U.S. labor groups, arguing in support of the Burke-Hartke bill, implicitly make such an assumption from which the conclusion is derived that U.S. corporate investment policy is a zero sum game; namely, that there exists a one-to-one trade off between jobs created abroad and those lost at home.

On the surface this line of argumentation seems logical, and indeed it is, if one accepts the assumption of a fixed corporate investment capacity. The difficulty is with the assumption, of course, because it ignores the very nature of job-creating corporate investment as a dynamic process. When U.S. firms invest abroad market forces are unleased which create secondary and tertiary employment effects, some of which are most favorable to U.S. domestic labor interests. U.S. direct investments abroad, both directly and indirectly, create domestic jobs as well as foreign jobs. Benefits to U.S. employment accrue directly through the export stimulation that investments abroad provides. Overseas plants of U.S. multinational firms are major customers of U.S. export industries, averaging over the past five years approximately 25 percent of total annual U.S. exports. Obviously, when U.S. exports expand because of the increased import needs of growing U.S. subsidiaries abroad, employment is created within U.S. export industries.

It is true that multinational firms based in the United States import as well as export. The question naturally arises of whether job losses in U.S. import-substitute industries offset job gains in U.S. export industries. Apparently this is not the case. As reported by the New York-based National Foreign Trade Council:

"U.S. multinational companies are leading exporters of U.S. products, accounting for roughly half of total U.S. merchandise exports. Industries with the largest participation in foreign investment were found by the U.S. Tariff Commission to be the heaviest contributors to U.S. exports. A survey by the Emergency Committee for American Trade found that exports of 74 multinational corporations in manufacturing increased by 181 per cent in the last decade, compared to a 124 per cent growth in total U.S. manufactured exports.

"The U.S. Tariff Commission has stated that those industries with substantial U.S. foreign investments are least associated with the recent rise in U.S. imports. In those U.S. industries where imports have made the fastest inroads, the imports have generally not come from U.S. subsidiaries abroad. Apart from imports under the U.S.-Canada auto agreement, imports from foreign manufacturing affiliates constitute only a very small percentage of total U.S. imports."[3]

On balance, therefore, it would appear as though the trade-induced effects of U.S. multinational firm transactions on U.S. employment are generally beneficial.

Apart from trade-induced benefits, there are additional aspects of U.S. foreign investments which promote domestic job expansion, although indirectly. U.S. multinationals with profitable enterprises abroad are provided with investible

[3] National Foreign Trade Council. *Crucial Issues and Challenges Facing International Business and the World's Economies: Declaration of the Fifty-Ninth National Foreign Trade Convention,* New York, November 13–15, 1972, pp. 14–15.

funds through the repatriation of earnings which can be used domestically to support domestic real investments and to create additional domestic jobs. Indeed, aggregated statistics reveal that *most* domestic real invesments are made by those U.S. firms which are *most* active abroad, the implication being that the relationship between domestic and foreign investment is more complementary than competing.

Furthermore, it must be noted that the growth of U.S. multinational firms abroad has been accompanied by the growth of U.S. multinational bank operations. Another complementary relationship emerges when successful business enterprise abroad produces the need for banking services, thereby generating bank earnings which can be repatriated back to the U.S. and rechanneled by parent banks into domestic investments creating domestic job opportunities. Finally, and most indirectly, domestic jobs may be created by *foreign* direct investment in the U.S. made possible by the availability of Eurodollars and other dollars abroad which originated in the first instance through the expenditures made by U.S. multinationals.

In conclusion, therefore, it is accurate for proponents of the Burke-Hartke bill to cite U.S. multinationals as exporters of jobs; however, it is deceiving to ignore the equally valid fact that multinationals also import jobs. Restrictions designed to prevent the former inevitably would serve to block the latter. Because of the complexities of the direct and indirect employment effects that foreign investments tend to produce, it is impossible to measure with precision exactly how many jobs will be gained or lost per unit of foreign investment expenditure; however, careful analysis would seem to indicate a net beneficial effect and therefore would seem to justify a liberal rather than a restrictive U.S. direct investment policy.[4]

U.S. MULTINATIONALS AND THE EXPORTATION OF TECHNOLOGY

In addition to other arguments cited above, proponents of the Burke-Hartke bill are quite vocal in criticizing U.S. multinationals as exporters of American-developed technology. It is claimed that the short-term U.S. balance-of-payments benefits of the same do not justify the resulting loss of industrial and military secrets nor the resulting erosion of U.S. marketing and productivity advantages which costs Americans jobs.

As articulated by Mr. Nathaniel Brenner, the Director of Marketing of Coates and Weller Corporation, the central employment argument is as follows:

"For many years our advanced products enabled us to compete in international markets despite high prices (and high wage rates).

"What has happened in the 1960's and continues is that American corporations, via licensing agreements, foreign plant construction and other multinational arrangements, have given away for a very small portion of real cost and value this advanced technology and, with it, the jobs it created. Where a multinational 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 per cent 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 corporation still nets 5 or 10 per cent. Result—unemployment plus balance-of-payments problems. Naturally, the foreign producer can sell for less—he hasn't had to invest in the education, the R. & D., or the wages which support the American system."[5]

In assessing the validity of such a position it is again necessary to penetrate beneath the surface in examining secondary as well as primary implications. On the one hand, it must be admitted that the dissemination of American know-how abroad will expand the production horizons of foreign countries and will raise foreign labor productivity. If American technology is properly assimilated and utilized by the importing country, then employment, investment, and balance of payments benefits will accrue. However, this *need not* be at the expense of

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[4] This recommendation is based on the assumption that international cooperation will prevail in the future structuring of foreign direct investment policies by national governments. Restrictive policies abroad, which could be designed to block the favorable employment effects of our direct investments, could force U.S. investment policy to proceed in the same direction. See the discussion on page 4.

[5] Quoted by AFL–CIO President George Meany in *A Modern Trade Policy for the Seventies*, based on a speech delivered to the Aluminum Association at the Waldorf-Astoria Hotel in New York City, October 26, 1972, pp. 10–11.

American employment and investment opportunities nor American balance-of-payments solvency. Again it is erroneous to assume a zero sum game.[6]

The transfer of technology across international boundaries is a dynamic process which takes many forms. It may involve the transfer of physical items such as drawings, tooling, machinery, process information, specifications and patents; but, on the other hand, it may arise simply through personal scientific contact or through the dissemination of scientific journals. The United States is a net exporter of technology because this is our comparative advantage. As the most technologically advanced country in the world, it is natural to expect a net outflow of technical information and know-how. The effect of artificially blocking the multinational firm's involvement in the process through passage of Title 6 of the Burke-Hartke bill will simply be to spur the dissemination of our advanced technology through other avenues. The U.S. direct investment bans of 1968 have failed in part because of the easy by which the capital restrictions have been circumvented. Technology transfers will prove to be as uncontrollable because of the availability of commercial valuable scientific information capable to being disseminated through personal contact, publications and other means. This, of course, begs the question. Of central importance is not whether technology transfer *can* be controlled, but rather, whether it *should* be.

Few would argue with the proposition that U.S. exportation of technology with or without multinational firm involvement, is a logical extention of the principle of comparative advantage. Multinationals adhere to the principle but have added a new dimension through the exportation of technology in support of foreign production operations. High technology goods are both produced and sold abroad as well as being produced at home for purposes of exportation. The most efficient production processes and techniques are also transferred abroad in support of foreign operations.

Certainly, proponents of Burke-Hartke restrictions have a valid case if American firms are "giving away" technical know-how without adequate compensation and if the transfer of the same leads to a loss of competitive advantage in American industry. Evidence seems to indicate, however, that this is not the case. Much of the know-how transferred abroad by American firms does not qualify as secret information guarded by patent rights; rather, it is know-how that foreign recipients could acquire through other means, e.g., technical journal. As a result its acquisition does not necessarily compromise the competitive advantages of American industries.[7]

On the other hand, some transfers do involve system-specific technology which foreign recipients could not acquire through other means, and, as a result, relative competitive advantages may be altered through multinational firm patent sales and licensing arrangements. Nevertheless, this is presicely the type of technology that American firms will not transfer abroad or internally without adequate compensation; it will hardly be "given away" by profit seeking firms. Transfers will be made if compensation is adequate to cover real and opportunities costs including the surrendering of internal technical "secrets" and the potential loss of future markets. Experience has shown that the price of transfer which foreign recipients must pay is in many instances prohibitive because of high costs and, therefore, the market transfer process does provide a built-in check against the wholesale erosion of American technological advantages.[8]

Even in those cases in which such transfers are made, it is not at all clear that U.S. multinational militate against American economic interests. It was shown earlier in this paper that secondary domestic employment benefits do result from profitable U.S. multinational firm ventures abroad; the profitable sale of technology is no exception to this rule. Furthermore, it must be reiterated that technological transfer is a dynamic, not a static process. U.S. technology, exported and applied abroad, often returns through horizontal or vertical transfer in more sophisticated and applicable forms, thereby supporting American industry and employment. The United States is a major importer, as well as exporter, of technology. In recent years the U.S. share of total world expenditures for imported technology has approximated 12 per cent which is more than France's share and only slightly less than Japan's and Germany's shares.[9]

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[6] See pages 4–6 for a discussion of the weaknesses of the zero sum game thesis.

[7] G. R. Hall and R. E. Johnson. "Transfers of United States Aerospace Technology to Japan," *The Technology Factor in International Trade*, New York: Columbia University Press, 1970, pp. 306–312.

[8] *Ibid.*, pp. 306–357.

[9] Graham Jones, *The Role of Science and Technology in Developing Countries*, Oxford: Oxford University Press, 1971, pp. 1–15.

The implications are clear. If U.S. government policy blocks the exportation of technology from the U.S., beneficial imports will be blocked as well through expected foreign retaliation. Admittedly, the U.S. is a net exporter of technology but in many product and production process areas U.S. technology is sold abroad with alternative or similiar technologies available from other countries. The public policy blockage of U.S. exports would not prevent the application of technology from other sources; rather, it would only result in loss of income to the United States with adverse balance-of-payments repercussions.[10]

The U.S government has the responsibility to protect the nation against loss of military secrets through private technological transfers. The national security argument made by proponents of the Burke-Hartke bill has validity. However, in other areas unrelated to defense or national security, natural market processes would seem sufficient to guard against the loss of U.S. competitive advantages in high technology endeavors. Mutual benefits do accrue ultimately to both technology-exporting and technology-importing countries. Artificial barriers against technology transfer are no more defensible than artificial trade or capital restrictions. After all, free technological tansfer is a corollary of free trade and trade and free capital flows.

WASHINGTON, D.C., *May 16, 1973.*

Hon. WILBUR D. MILLS,
Chairman, Committee on Ways and Means, U.S. House of Representatives, Longworth House Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: Herewith, for insertion in the record of your Hearings, are my views regarding the Administration's proposed *Trade Reform Act of 1973.*

You will remember, I am sure, from our previous associations extending back to the early 1940's when I worked with you and other members of Congress on the Trade Agreements Program, that I am on the free trade side of the trade side of the trade question. I have not changed my convictions that the United States should move steadily toward the goal of free trade in the best interest of the people of our country. If there has been any change in my attitude it is that I am more than ever convinced that peace and prosperity can be achieved only by pursuing such a policy.

The legislation proposed by the President is not pointed in that direction. Notwithstanding the barrage of rhetoric in support of the bill as an instrument to liberalize trade and to bring about practical cooperation with our European neighbors, I am convinced that it will do nothing of the kind.

The President, superb politician that he is, is adept at double talk. While proclaiming the virtues of freer trade, most of his significant actions have been protectionist. Without stating the broad objective of U.S. trade policy, the bill would authorize the President to reduce, or even remove, U.S. tariffs, *or to increase them without limit.* The major part of the bill, however, authorizes the President to retaliate against "unjustifiable" or "unreasonable" restraints by foreign countries on imports from the United States. The President alone would decide when foreign practices were such as to warrant U.S. retaliation.

Finding himself on the horns of a dilemma, the one to press for freer trade and the other to restrict import competition so as to satisfy politically powerful protectionist interests, the President accepts both horns by preaching free trade while practicing protectionism. In all probability, this pattern will continue because, judging from experience, the Administration has come down far harder on the "unfair" treatment of U.S. products abroad than it has on the desirability of freeing the international movement of goods and capital.

At no point does the bill clearly state the objective of U.S. trade policy. Rather, it stresses procedures of negotiation, disguising only thinly that the "more open" and "more equitable" trading world that is sought is one in which threats will be used (as demonstrated by John B. Connally) to force other countries to buy more U.S. goods.

The proposed legislation is a headless monster in which words having different meanings to different people are left undefined. It would even give the President authority to eliminate the traditional equal-treatment policy under which the United States, ever since 1787, has sought to avoid trade discrimination among countries. Such a major reversal of policy should not be for the President to decide without the specific approval of Congress.

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[10] National Foreign Trade Council, *Op. Cit.*, p. 25.

Dealing with Europe, Japan and other countries by resorting to tough talk—by using the "stick" rather than the "carrot"—and by thinly-veiled political and economic threats, will do more harm than good, even though a few crumbs of freer trade may be dropped from time to time to satisfy some of the more naive trade liberals. In a show-down between those advocating more liberal trade and those seeking special privilege it is almost certain that the present incumbent of the White House will decide in favor of the special interests.

The only "liberal" trade policy that will be convincing is one that has the blessing of Congress and the people of the United States. In all the years that I worked with you and other members of Congress on the Trade Agreements Program never was it seriously proposed that the President be given absolute power to determine trade policy. I am sure you remember that, back in the early 1940's, Secretary of State Cordell Hull, father of the Trade Agreements Program, in testifying before the Ways and Means Committee, stated emphatically that such authority would be "too much power for a bad man to have and more power than a good man would want." This common-sense philosophy needs to be applied to the present occupant of the White House. For these reasons I wish to go on record as being opposed to the bill in its present form.

The time has come for the United States to abandon its niggardly bargaining with other countries for item-by-item trade "concessions". It is time for it to recognize that competition, including competition from abroad, is in the national interest. The time has come for it to re-assume its liberal trade leadership and to accept the obligations which the sheer size of its economy thrusts upon it. Because of the tremendous size of its market it can well afford to apply the "carrot" rather than the "stick" by offering to open its market to those countries which open theirs.

The spectre of the world's largest country risking trade warfare because of political pressures by a few of its lethargic industries and labor unions is distressing. As long as the United States continues to be petty other countries can hardly be expected to be magnanimous. Unfortunately, we no longer have a leader of the stature of Cordell Hull, with his dogged determination and broad vision.

I submit that a Joint Declaration by Congress and the President along the following lines would do far more good than passage of the *Trade Reform Act* of 1973—

The United States declares that:

1. Its goal is world-wide free trade by the year 2000.
2. Import restrictions (especially quantitative controls) are inconsistent with this goal and do not constitute a constructive answer to destructive import competition.
3. It is willing to join with other countries in undertaking to eliminate all trade restrictions, with a minimum of negotiated exceptions, accordng to a predetermined schedule within the next 20 to 30 years.
4. It will inaugurate a broad-gauge domestic program to facilitate the adjustments that will be needed to accommodate its economy to the gradual elimination of tariffs and quotas. Such a program will include re-training of workers, provisions for early retirement, efficient public employment offices on a national scales, etc.
5. It is willing to join with other countries in attempts to harmonize national policies, particularly with respect to agricultural products, with a minmum of governmental interference with international trade.

Yours sincerely,

HOWARD S. PIQUET.[1]

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THE KENNEDY ROUND: ESTIMATED EFFECTS AND EMPIRICAL EVIDENCE

By D. Christopher Ohly
May 6, 1973

The Year of Europe is upon us. With the entry of the United Kingdom into the European Economic Community, the United States for the first time in recent history faces an economic challenge from an international competitor nearly equal in strength to her own. In a Europe fashioned in the despair of two wars, and motivated in the Cold War aftermath, a new spirit of unity has arisen. Economic integration has moved ahead at an accelerated pace, and while political integration yet lags far behind, signs of its potential accomplishment are beginning to appear.

Yet, Europe seems at least as troubled by the unifying forces which have arisen as do the two other major European-centered powers. Indeed, "Europe is now caught between two fires. The United States supports political Europe - which doesn't exist - but distrusts economic Europe. The Soviet Union tolerates economic Europe as a "fact", but is still hostile to political Europe."[1] Nonetheless, the question previously and frequently asked, "Does Europe, then, still have a future?", now seems to be moot. Economic Europe will certainly exist, and challenge the predominance of both powers with renewed vitality.

A spirited rivalry, then, has begun to emerge between the traditional co-partners in the Atlantic Community, a rivalry focused upon the economic leadership of the Community in the realm of international trade. Great potential for co-

1. Laloy, Does Europe Have a Future?, 51 For. Affairs 161 (1972)

operation between the two partners still exists. Political ties will not soon be broken. But, the relationship shows increasing strains, as misperceptions of roles and futures abound.

II

Nearly five years after the conclusion of the Kennedy Round of tarriff negotiations under the General Agreement on Trade and Tarriffs, the President has requested authority from the Congress to participate in the next round, scheduled to begin in September in Tokyo (later to be moved to Geneva), and to last a minimum of two years. While some indications of Congressional approval have been manifest[2], efforts by the President toward a broad grant of negotiating authority have met stiff competitive oppostition[3], especially in view of the current conflict between the Congress and the President over their respective prerogatives.

The change in tenor of the Congress during the past several years has made it unlikely that a grant of authority any broader than that granted under the Trade Expansion Act of 1962, the basic grant of authority for the Kennedy Round, will be given. Under that Act, the President was given authority to negotiate linear tarriff reductions to a maximum of fifty percent of their pre-Kennedy Round levels[4]. Competitive legislative proposals introduced into Congress to date are much more restrictive in scope, dealing primarily with modifications in the Trade Expansion Act's adjustment assistance and anti-dumping provisions[5].

2. Washington Post, March 22, 1973, at 2, col. 6.
3. Washington Post, April 30, 1973, at 2, col. 1.
4. Trade Expansion Act, 19 U.S.C.A. §1821 (1962).
5. S. 323, S.434, S.435, S. 439, S.1156, S.151, H.R.24, H.R.62,

The change in tenor is, perhaps, best reflected in the change in purposes designed to be achieved through trade legislation. The Trade Expansion Act of 1962 had as its purpose

> "(1) to stimulate the economic growth of the United States and maintain and enlarge foreign markets for the products of United States agriculture, industry, mining and commerce;
> (2) to strengthen economic relations with foreign countries through the development of open and non-discriminatory trading in the free world; and
> (3) to prevent Communist economic penetration." [6]

The Act was focused upon the benefits which might accrue domestically as a consequence of increased international trade levels and trade liberalization, and viewed free trade as an independently valuable gain. The most prominent of the recently introduced trade bills are the Hartke-Burke bills[7], and the Percy bill[8], whose purposes differ fundamentally from those listed above. Hartke-Burke in particular, focuses more directly upon the adverse domestic consequences of trade expansion, noting that

> "In recent years rapidly increasing imports, sometimes promoted by foreign government assistance or unregulated unfair trade practices, have all but eliminated certain domestic industries, and are threatening to destroy critical portions of the United States production base." [9]

In order to ensure that further adverse effects of trade expansion as a result of shifts in our domestic comparative advantage will be reduced, the bill continues

> "...this statute should be interpreted to insure that the production of goods which have historically been produced in the United States is continued and maintained. To the extent that production of such goods has been transferred abroad,

5. (cont'd) H.R.241, H.R.328, H.R.498, H.R.1056, H.R.1478, H.R.1726, H.R.1930, H.R.3515, H.R.4409, H.R.4515, and H.R.5086, 93d Cong., 1st Sess. (1973)
6. Trade Expansion Act, 19 U.S.C.A. §1801 (1962).
7. S.151, H.R.62, 93d Cong., 1st Sess. (1973)

> it is the intent of Congress that this production be encouraged to return to the United States. Moreover, as new products are developed and marketed in the United States this legislation should be administered such that a fair proportion of such production is maintained in the United States."[10]

In short, recent bills introduced into the Congress are profoundly protectionist in tone. "Burke-Hartke bristles with mandatory import quotas. Its opponents say it would drastically curtail world trade."[11] Nonetheless, with strong labor support seemingly behind such an imposition of renewed protective measures, "Burke-Hartke is still the anvil on which any compromise has to be worked out."[12]

One is forced to wonder why reactions to further efforts at trade liberalization have been so strong within the United States. Several general rationales might be provided. First, while the United States has seen astounding growth during the last decade, with per capita GNP rising from $2,558 to $4,756 between 1958 and 1970, Americans have also seen their competitors sustain even more astounding rates of growth during the same period.[13] Second, the United States has seen much of its increased prosperity threatened in recent years by spiralling rates of inflation[14], combined with high levels of unemployment. Third, the United States has seen a growing resource crisis[15], combined with an apparent drain of domestic resources through sustained high levels of international investment by domestically based multinational corporations[16]. Fourth, the

8. S.1156, 93d Cong., 1st Sess. (1973).
9. S.151, 93d Cong., 1st Sess. (1973). 10. Ibid.
11. Washington Post, March 21, 1973, at 2, col 6.
12. Washington Post, April 30, 1973, at 2, col 1.
13. The United States growth during the period from 1958-70 amounted to 85.9% or 7.16% average annual growth. Similar figures for West Germany are 176.7% and 14.7%; for France

United States has faced continuing balance of payments difficulties[17], and sporadic deficits in its balance of trade[18]. Further, the United States has been forced to twice devalue the dollar, by 7.89% in December 1971, and again by 10% on February 12 of this year, in response to international monetary pressures.[19] Finally, the impact of increased imports has not been lessened by the utilization of adjustment assistance provisions in the Trade Expansion Act, as had initially been intended, until very recently.[20]

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13. (cont'd) the figures are 142.9% and 11.9% per annum; for Great Britain, 74.1% and 6.1% per annum; and most remarkably, for Japan, 530.5% and 44.2% per annum. Time, March 12, 1973, at 46 (Calculated from GNP per capita figures presented).
14. Indeed, the rate of inflation seems to fluctuate significantly, though remaining at a relatively high level. "Inflation shot up from an annual rate of 2.8 per cent in the last quarter of 1972 to 6 per cent in the first quarter of this year." Washington Post, April 20, 1973, at 1, col. 3.
15. Washington Post, April 22, 1973, at 4, col. 4; Meadows, The Limits to Growth.
16. It is suggested that "This flight of investment abroad has a three fold purpose: (1) to avoid U.S. corporate income taxes; (2) to buy cheaper labor abroad; and (3) to sell back on the world's best market--the American consumer --products which paid nothing, by way of manufacture, into the average American wage earners' ability to pay for it." "Hartke-Burke" Foreign Trade Bill Introduced in Both Houses of 93rd Congress, Press Release, Senator Hartke, January 5, 1973, p.3. But see also Balassa, Trade Liberalization Among Industrial Countries, p. 125 et seq., and Cooper, The Economics of Interdependence, p.81-91.
17. Washington Post, March 22, 1973, at 2, col. 6. "For last year as a whole, the basic deficit was $9.24 billion, about the same as the $9.28 billion in 1971, and less than the $10 billion the administration had predicted."
18. "Over the years, the U.S. trade balance has fluctuated widely. In 1950 the trade surplus dropped to a low of $1.1 billion and, after rising, fell again to $1.4 billion in 1953. It improved, rising to $6.5 billion in 1957, but dropped back in 1959 to $1.2 billion. By 1964 it climbed to $7 billion." Special Representative for Trade Negotiations, Report to the President on Future United States Foreign Trade Policy 1-3 (1969), in Schwartz and Fulda, Regulation of International Trade and Investment 188 (1970). "The United States had a balance of payments deficit for years, but until 1971 it had a surplus in its trade accounts. That year it had a $2.7 billion deficit in trade; its first in this century; last year the trade deficit was $6.8 billion." Wash-

Whatever the reasons for the new protectionism which seems to be the motivating spirit behind recent legislation, it is readily apparent that domestic support for renewed efforts at trade liberalization through a "Nixon Round" have drastically diminished.

> "The most important shift in the U.S. political constellation on trade policy is organized labor's move to the protectionist camp. This shift cannot be explained simply by high unemployment. Labor was becoming more protectionist even as unemployment was dropping steadily after 1962, and had adopted a completely protectionist stance when unemployment stood at its post-Korea low in early 1969...Organized workers have apparently achieved sufficient income levels that the movement as a whole has become more interested in avoiding shifts of geographic location, seniority rights, local interests, etc., than in seeking higher real incomes elsewhere."[21]

At the same time, other groups which might be major beneficiaries of trade liberalization have not mobilized effectively to countervail the loss of labor support. Consumer groups[22] and multinational corporations[23] who are the potential mainstays of new movements towards trade expansion have not proved themselves as either consistent or efficacious advocates of free trade policy. Finally, while the support of agriculture for such renewed efforts at trade liberalization remains firm, their total influence upon trade policy has declined with its declining importance in domestic industry.[24]

Hence, it seems likely that momentary economic pressures will dictate at least a "tough line" in any future trade negotiations in which the United States may participate. Such a

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18. (cont'd) ington Post, March 22, 1973, at 2 col. 6. Indeed, "The U.S. trade deficit with Japan (alone) reached $4 billion last year, and the standing surplus in trade with the Common Market reached a deficit of $600 million last year." Washington Post, March 23, 1973, at 1, col. 4. More recently, the trade deficit has, again, seemingly improved, but reports are conflicting. Compare Washington Post, April 20, 1973, at 1,col.3

"tough line" may reflect the overall decline in importance of international trade to the economic well being of the United States, especially as differences in comparative cost structures among industrial nations converge[25]. Almost certainly, such a "tough line" will reflect a degree of myopia and larger degrees of misperception in the importance of international trade to the remainder of the Atlantic Community.

The European perspective may, in fact, fail to account for the internal pressures towards protectionism in the United States, and may also view such domestic pressures as signs of hesitance on the part of the United States in fulfilling their commitment to Atlantic Community development. Further, they might view the successive devaluations of the dollar as a manner of callousness in the United States to the corresponding domestic pressures exerted upon European governments.

> "The U.S., which exports only about 6% of its GNP can ride out the storm with relatively little inconvenience. But, European nations, which export up to 50% of their GNPs are highly vulnerable to an international currency crisis."[26]

Europeans, therefore, may perceive the United States with somewhat greater mistrust and suspicion. Power has been exercised abroad by the American colossus with abandon, in the European view, and could, in fact, be exerted against the less powerful European Community to extract advantageous concessions which

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18. (cont'd) with Washington Post, April 27, 1973, at 1, col.4. See also Cooper, The Economics of Interdependence, at 76-7.
19. Washington Post, April 27, 1973, at 1, col. 4.
20. Trade Expansion Act, 19 U.S.C.A. §1901(c)(1) and (2). By 1970, "No modification of tarriff concessions or adjustment assistance to an industry or particular firm ha(d) been granted under the Trade Expansion Act of 1962." Schwartz and Fulda, Regulation of International Trade and Investment 415 ([illegible]0), but "The present Tarriff Commission and Administration have changed this situation as rapidly as possible, certifying adjustment assistance for 11 firms and over 15,000 workers and bud-

Europe may be powerless to refuse.

> "Once the prevailing assumption had been that though the United States might be dangerous at times, this was largely because the country was not always very careful and not always very bright. Today, a common assumption is that the strength of the United States is animated by cunning and fear...While both Americans and Europenas see the strength of the United States as having declined, Europeans still see the United States economy as disconcertingly powerful - and, being imbued with the psyche of the rogue elephant, as disconcertingly dangerous."[27]

Simultaneously, Euopeans may view with intensified suspicion the continued stream of American investment in Europe, particularly by American based multi-national corporations which are able to take advantage of European Economic Community common corporation laws where European corporations are not. By 1966, investment flows from the United States to Europe amounted to $1.805 billion annually, with $1.140 billion directly invested in the European Economic Community and an additional $384 million invested annually in the United Kingdom.[28] "At the end of 1971, Americans were reported holding assets valued at $181 billion abroad, while the holdings of all non-Americans in the United States at the time were only $123 billion."[29] At current market prices, American investments in Europe now amount to nearly $80 billion. Certainly, the vast influence which this concentration of economic wealth may have on the several economies of the European Economic

20. (cont'd) geting almost $250 million for it in fiscal 1972." Bergsten, Crisis in U.S. Trade Policy, 49 For. Affairs 630 (1971).
21. Bergsten, op cit., p. 621. 22. Ibid, p. 624. 23. Ibid.
24. Ibid, p. 625.
25. See, e.g., Cooper, The Economics of Interdependence, at 76.
26. Time, March 12, 1973, at 51.
27. Vernon, Rogue Elephant in the Forest, 51 For. Affairs 574 (1973).
28. Cooper, op cit., p. 83. 29. Vernon, op cit., p.576.

Community is readily apparent. Continued high level flows of American direct investment in Europe may well make Europe still more dependent upon an influx of United States technology than it is at present. The reasons for stricter controls on such investment, comparable to those now placed upon foreign investments in Japan, may well present themselves as an easy solution to European economic difficulties, at least temporarily.

The economic difficulties of the Europeans are compounded by their reliance upon importation of basic resources, including advanced technology. The European Economic Community has thusfar proved itself unable to pool its resources in common research and development efforts, save for a few isolated projects (notably the Concorde and the abortive EUROSPACE efforts), and seems unlikely to do so soon. Hence, European reliance upon American technological advances remains strong.[30]

No common industrial strategy has yet been found to provide a coordinated response to the penetration of American economic power into the European economic arena. In part, of course, this has been based upon conflicting political demands within the European Community, if only derived from their respective nationalisms. [31]

Finally, the Europeans perceive American complaints about inflation as the complaints of "an habitual consumer, unwilling to consider any restraint on its consumption habits, even if such restraint would greatly improve its bargaining position."[32] The European problem with inflation appears to be of far greater magnitude. "Consumer prices in the Common

30. Vernon, Rogue Elephant in the Forest, 51 For. Affairs 578-9 (1973).
31. Ibid, p. 583. 32. Ibid, p. 577.

Market as a whole rose some 8% last year, compared with 3.3% in the U.S.. The Paris-based Organization for Economic Cooperation and Development (OECD) warns that this year prices could rise by as much as 9%."[33]

In short, the situation in Europe has not changed much since 1967, when noted French writer Jean-Jacques Servan-Schreiber remarked in his book The American Challenge that

> "Today the balance sheet is in: Europe has created a market, but she has not transformed herself into a great power. Even this market, as we have seen, does not help her so much as it does the American industrial machine.
> Looking at the first ten years of the Common Market, the Rapport Lambert concluded:
> One of the things we could have expected from the Common Market was the creation of large European corporations capable of meeting international, and particularly American, competition. The technological and financial gap separating the two continents should have narrowed, Europe should have gained new strength in the areas of scientific research and technological innovation, and thereby been restored to economic and financial power. So far this has not happened. The gap between the two continents has widened." (34)

In view of such disheartening predictions for the future of Europe by Europeans, one is forced to wonder why Americans must assume a "tough negotiating line" at all, and indeed, why the Europeans have not themselves demanded greater concessions from their United States counterparts.[35] Perhaps European overestimation of American economic power in view of domestic exigencies may be cited as a reason. Perhaps, also, as much misperception of American economic requisites and motivations is manifested by the Europeans as is manifested by the United States in respect of Europe. More concrete evidence is needed.

33. Time, March 12, 1973, at 46.
34. Jean-Jacques Servan Schreiber, The American Challenge 88 (1967).

III

Evidence concerning the effects of trade liberalization upon the respective economies of the major partners in the Atlantic Community is in part provided by economic theory, and in part by an anlysis of the trends in trade flows between the United States, Europe, and associated industrialized economies. While a complete explanation of the misperceptions held by each of these two major economic powers may depend upon a more complex survey of internal economic and political structures, an analysis of theoretical and practical effects of recent attempts at trade liberalization may produce a sketch of present shifts in comparative advantage structures and provide guidance for future negotiating and legislative strategy.

While imports are often seen as undesirable in effect upon single-nation economies, traditional free trade theory holds an increase in imports as one of the principal benefits of trade expansion. The traditional argument continues by suggesting that international trade will allow any nation therein involved to make fuller use of its comparative advantage in a particular economic factor of production, thereby reducing the cost of its exports and allowing the importation of commodities produced at lower cost elsewhere.

> "Accordingly, a country may benefit from trade liberalization with regard to its exports as well as its imports. On the export side, the gain consists in the opportunity to sell commodities at better terms than would have been possible in the absence of tarriff reductions on the part of other countries. On the import side, the benefits of freer trade arise from the opportunity to consume low cost imported goods in place of the more expensive domestically produced commodities, the

purchase of which has been a result of the existence of tarriffs." 35

Further, the argument continues, in addition to these basic static effects of trade expansion, countries engaged in free trade may reap the benefits of certain dynamic effects as well.

The traditional free trade argument suggests that economies of scale may begin to take effect, and reduce production costs more than proportionately, as markets are widened through freer trade.[36] These economies of scale may result from the lengthening of production runs in individual commodities through horizontal specialization[37], or a "learning curve" effect, or through the breakdown of the production process into highly specialized, optimally operant plants by vertical specialization.[38] And, "In general, it would appear that the gain from economies of scale is inversely related to the size of national markets. In relative terms, the exploitation of economies of scale following the liberalization of trade would therefore provide the largest gains to samll countries."[39] Practically, this described benefit of economies of scale is the basic motivation behind efforts at regional integration in general, and the effort at uniformity of corporate laws within the European Economic Community, in particular. Ultimately, also, this may be the chief benefit of trade expansion for countries whose domestic markets, though large, are yet too small to reap all economic benefits of economies of scale.[40]

35. Balassa, Trade Liberalization Among Industrial Countries 72 (1967)
36. Empirical evidence of the potential benfits of economies of scale are provided in Balassa, op cit., p. 100.
37. Ibid, p. 101. 38. Ibid, p. 103. 39. Ibid, p. 104.
40. "France, for example, still has a host of small, undercapitalized

The trade expansionist argument suggests further benefits of trade liberalization in the effects of competition upon national industries. Import competition, it is maintained, will force domestic producers to produce import-competitive commodities more efficiently, or to reallocate their productive resources to other commodity areas where they can operate at efficient levels. Hence, innovation and correction of misallocations of factor inputs are the necessary consequence of freer trade.[41] It is argued that consequent upon the effects of such competitive pressures, imports will help moderate inflationary pressures within the pricing system.[42]

Penultimately, the trade expansionist view argues that freer trade creates more jobs than it might destroy, though some relocation or retraining may also be inherent in new job creation, primarily because of the great surplus of exports over imports which the henceforth competitive nations might hope to achieve.[43]

Finally, the argument conludes, a lowering of tarriff barriers potentially could reduce the incentive towards capital exportation through direct investment abroad.

> "The only obvious way to pull the fangs of European discrimination, while continuing to maintain America's goal of European unity (during the Kennedy Round) was to persuade the EEC to lower its outer tarriff wall, the common external tarriff...A lowering of the common external tarriff should reduce the incentive for American firms to establish branches in Europe, and thus help stanch the outward flow of capital from the United States." (44)

40. (cont'd) companies. Out of 908,000 firms, only 37 employ more than 5,000 people, and only 140 more than 2,000. The figures suggest that the country has a long way to go before it realizes optimum economies of scale." Time, March 12, 1973, at 51, col. 1.
41. Balassa, op cit., pp.104-6.
42. Bergsten, Crisis in U.S. Trade Policy, 49 For. Affairs 620 (1971)
43. Ibid. 44. Evans, U.S. Trade Policy 6 (1967).

Hence, in addition to the politically desirable ends of closer cooperation between partners in a trade liberalization scheme and general improvement of real national income levels, several economically desirable ends might be achieved through trade expansion, the argument runs, including retention of capital within the limits of national jurisdiction and the improvement of balance of payments deficits. And, indeed, for long periods of time these considerations when combined with the effects of lower transportation costs and broadening of business horizons[45] greatly encouraged the adoption of commercial policy receptive to trade liberalizations. However, more recently, as noted previously, pressures have surfaced within both the United States and within Europe to reconsider the benefits of trade expansion in the light of domestic experiences under initial trade liberalization agreements resultant of the Kennedy Round of tarriff negotiations (1962-1967).

Strong arguments have been advanced by domestic supporters of protectionist legislation within the United States and by less enthusiastic free trade advocates within Europe to adopt a commercial policy based upon realistic appraisals of domestic disruptions which have been the outcome of the Kennedy Round. Most of these arguments center upon the adjustment of tarriffs to reflect "optimum" tarriff levels, protective of domestic industry while still promotive of improvements in real national welfare.

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45. Cooper, The Economics of Interdependence 63 et seq. (1968)

Tarriffs must, necessarily, raise the price of commodities upon which the duty is levied, save for extraordinary circumstances.[46] Hence, the relative price of factor inputs within the protecting country is changed, and income distribution between the factors is altered to reflect the change in favor of the factor used intensively in import-competing market sectors.[47] Benefit accrues to the factor of production which is scarce in the protecting country, while real income to the more abundant factor declines.

In the United States, then, which has normally been assumed to be capital intensive in its production base, an imposition of an "optimum" tarriff might improve the internal income distribution of the economy in favor of the assumedly scarcer factors, among which is labor. While the assumption of capital intensitivity itself has been challenged[48], it is clear that if the traditional assumption is in fact valid, the income distributional benefits of tarriffs might partially explain the recent shift of American labor from the trade expansionist into the protectionist camp. Income distributional improvement may, at this point, be valued over reductions in price which might accompany freer trade. Similar considerations might apply in the European and Japanese cases, where political pressures dictate improvement in the real income of the agricultural and industrial sectors respectively, at least insofar as such income improvements is redistributed among the labor force.

46. Sodersten, International Economics 345 (1970)
47. Generally, "a tarriff favors the factor used intensively in the import competing sector, because, as the tarriff raises the price of the import good production of it will expand, and

Additionally, the imposition of "optimal" tarriffs might be justified by potential improvement in a country's terms of trade with other countries, especially where the trading partner is unable to retaliate with tarriff impositions of its own. In such a case, the real welfare of the country imposing the tarriff might improve as more goods are received for the same amount of goods exported and exchanged. "It should be observed that only if the country levying the tarriff has unemployment will the tarriff produce a positive effect in real terms. Otherwise, the tarriff will only cause an increase in the national income in monetary terms."[49] If unemployment exists as a consequence of idled productive capacity, unemployment may decrease through more effective utilization of labor in the import-competitive sector, perhaps increasing both labor and capital factor productivity. However, if no such unemployment exists, the imposition of tarriffs will only result in a shift of income distribution, whose effect on real growth of national income may be diminished by rise in domestic prices.

With unemployement rates at high levels, this argument might support labor's protectionist stance. Yet, labor began to shift towards protectionism long before unemployment rates reached their present levels. Furthermore, the argument is almost entirely inapplicable to the European case, where use of productive resources is nearly complete.[50]

47. (cont'd) the demand for the factor used intensively in this industry will increase and its price will rise: The income distribution will unambiguously change in its favor." Sodersten, International Economics 347 (1970)
48. Leontief, Domestic Production and Foreign Trade: The American Capital Position Reexamined, in Procedings of the American Philosophical Society, September 1953, at 332 (1953).

A further argument might be made that tarriff imposition protects "infant industries" whose development is threatened by the overcompetitiveness of foreign imported commodities. "The core of the infant industry argument is the existence of some kind of internal economies. A firm cannot compete if it is small. It has to be large before it can harvest all the economies of scale in production and become competitive. Therfore it has to be protected for some time and permitted to grow without meeting immediate competition from abroad." [51] While the infant industry argument for protection has usually been advanced by developing countries whose domestic investment structures might not normally permit investment in uncompetitive market sectors or in externalities required for efficient production in such sectors, most recently it has been advanced by more industrialized nations seeking protection for certain market sectors through exception lists. The argument advanced relates to the lag in technological development or development potential in such "accepted" market sectors.[52]

However, the infant industry argument fails in view of the expansion of market size consequent upon trade liberalization which might improve industrial ability to "harvest all the economies of scale"[53], and because capital markets within more advanced industrial nations can be expected under most circumstances to provide needed investment in less competitive market sectors and in market externalities.[54]

49. Sodersten, International Economics 362 (1970).
50. Time, March 12, 1973, at 51, col. 1.
51. Sodersten, op cit., p. 376.
52. Balassa, Trade Liberalization Among Industrial Countries 111 (1967)
53. See p. 13, supra.
54. Sodersten, op cit., p. 378.

The most effective argument for the imposition of "optimum" tarriffs might derive from the vast fluctuations in trade balances in certain economies. Such fluctuations, it might be argued, are the result of ineffective control over the penetration of imported commodities, resulting in unpredictable market disruptions, higher unemployment rates, and potentially higher rates of inflation.

As previously noted, great fluctuations do occur in the U.S. trade balance over the years. Indeed,

> "...when our domestic economy grows rapidly and prices and costs are rising, imports rise even more rapidly - faster, in fact, than the increase in domestic demand. When growth is more normal and prices are stable, the increase of imports falls off quickly." (55)

Strong criticism has been levied by contemporary American supporters of protectionist trade legislation against this readily apparent fluctuation in the American trade balance, attributing to it substantial portions of domestic economic disruption.[56]

These fluctuations in trade balances are explained by traditional trade expansionists to be the consequence of the supply and demand structures of the economies which bear the consequences of rapid swings in trade balances. In particular, reliance is placed, in such explanations, upon the variance in supply and demand elasticity within the economy affected.

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55. Special Representative for Trade Negotiations, Report to the President on Future United States Foreign Trade Policy, in Schwartz and Fulda, Regulation of International Trade and Investment 188 (1970).
56. "It is fair to recognize labor's point that sudden and immediate fluctuations upward in imports frequently cause disaster to wages, health benefits, pension rights, home equity, job security...whole communities of life and living

> "If the demand elasticity is large, it means that consumers are easily able to substitute exportables for importables in consumption; if the supply elasticity is large, it means that producers can move factors of production easily from one sector to the other." (57)

Hence, if supply elasticity is low, and producers are unable to easily move productive factors from one sector of the economy to another, the argument runs, then market disruptions might be great, as terms of trade decline greatly. As domestic resource allocation changes to adjust to new market conditions, the terms of trade might again improve, subject to renewed assault by import penetration into new market sectors. Further, the argument continues, countries which sustain higher growth rates have certain advantages over countries with lower growth rates, since high rates of investment lead to more fluid factor mobility.[58]

Thus, it might be maintained that wide fluctuations in United States trade balances may be accounted for by relatively low supply elasticity and by lower growth rates.[59] Most certainly, then, the increase in imports is accounted for by domestic market factors, rather than the reverse, the trade expansionist maintains, contrary to the assertions of those who advocate tighter controls on imports. In fact the importation of commodities while reducing prices in certain sectors, and promoting a reallocation of resources to more productive sectors, probably would stimulate growth in the economy and promote higher investment rates, thereby altering the effective elasticity of supply.

56. (cont'd) standards. So some limit on sudden upward fluctuations is justified." Speech by Senator Hartke, Board of Governors Electronic Industries Association, January 26,1973.
57. Sodersten, op cit., p. 352.

Finally, the free traders respond, all the previous arguments in favor of tarriff imposition ignore the costs of protection to the economy of the country imposing such protective measures. The imposition of tarriffs induces distortions in the domestic economy, especially in consumption, resulting in higher prices and lower marginal utility of the goods subsequently consumed. Further, it induces distortions in production, as resources are left misallocated, devoting more resources than necessary to import-competing sectors.[60]

Nonetheless, the arguments of protectionists seem to hold increasing weight, in view of the domestic disruptions which have occured as a result of trade liberalization.

> "Against this background it is easy to understand why protectionism is a tempting alternative. It is usually heavily backed by certain domestic interests; a policy of increasing tarriffs is also often easy to implement. Protectionism seems to give a lot of mileage for a little effort." (61)

Yet, in the light of the possible political ramifications of an imposition of protective measures, and in the light of possible retaliation by trading partners, it may appear that any move towarda a system of "optimum" tarriffs will not, in the longer run, be worth the effort. As effective, perhaps, and less damaging to efforts towards economic integration in recognition of increasing trade interdependence, might be a system of domestic taxes and subsidies designed to assist domestic industry and workers in adjusting to the impact of competitive imports. But, the commitment to such

58. See, e.g. Balassa, Trade Liberalization Among Industrial Countries 107 (1967); and Cooper, The Economics of Interdependence 77 (1968).
59. See p. 4, supra.
60. Sodersten, International Economics 344 (1970).
61. Ibid, p. 388.

a program must be great, if it is to be effective.

The Kennedy Round of tarriff negotiations were largely founded upon the theoretical considerations thusfar outlined. Most of the trade expansionist arguments were fundamentally accepted, and the Round produced substantial reductions in tarriff barriers, although less than the linear tarriff reductions initially desired. In a real sense, then,

> "the Kennedy Round will result in a process which - if continued - would be very analogous to the first phase of implementation of a great free trade area among the industrial countries, such has been advocated by the proponents of the 'North Atlantic Free Trade Area' concept." (62)

IV

Initial hopes preliminary to and during the Kennedy Round of tarriff negotiations were for an across the board (linear) reduction in tarriffs of fifty percent. Authorization given the President by Congress in the Trade Expansion Act permitted a maximum linear reduction of American tarriffs of fifty percent of their pre-Kennedy Round levels.[63] However, for several reasons, not discussed here[64], these hopes were not realized and reductions in tarriffs, though substantial, were not linear and subject to exceptions. Many of the criticisms levied at the developed industrialized countries by less developed countries as a result of high effective tarriffs which discriminated against LDC produced semi-manufactured goods remain long after the Round. Further, initial

62. Schwartz and Fulda, Regulation of International Trade and Investment 208 (1970).
63. Trade Expansion Act, 19 U.S.C.A. §1841(b) (1962).
64. See, e.g., Sodersten, International Economics 406-9 (1970); The Kennedy Round: Estimated Effects on Tarriff Barriers, UNCTAD, U.N. Doc. TD/6/Rev.1 (1968), at 6; Evans, U.S. Trade Policy (1967).

expectations about the effects of linear tarriff reductions upon trade flows, and especially upon trade balances, have proved unfounded.

It is apparent that the composition of world trade has changed greatly in favor of the exchange of manufactured goods, which accounted for 45 percent of total world trade in 1953, and 60 percent of world trade in 1966.[65] Further, the direction of world trade has simultaneously changed, with 37.1 percent of world trade accounted for by trade among industrial nations in 1953, and 46.5 percent of world trade occuring between industrial countries in 1966.[66] Hence, it was estimated by trade liberalization advocates that the trend would continue, after trade liberalization and a fifty percent linear reduction in tarriffs.

Assuming a fifty percent reduction in tarriffs on manufactured goods and industrial materials, with prices assumed to remain constant, it was estimated that trade in those commodities would result in an increase in American exports of $833 million, and an increase in American imports of $1.130 billion, directly resulting in a net loss of American advantage in its trade balance of $297 million.[67] If the reduction in cost of the discriminatory effects of tarriffs, and feedback effects are accounted for in the equation, the net change would result in an improvement in the American trade balance of $16 million[68]. In either case, the net change in American trade caused by a fifty percent reduction in tarriffs, would be small in comparison with total trade in manufactured goods

65. Cooper, The Economics of Interdependence 61 (1968).
66. Ibid., p. 62
67. Balassa, Trade Liberalization Among Industrial Countries 217, Appendix Table 4.4 (1967). 68. Ibid, but see also p.185 et seq.

and industrial materials. All figures were estimated increases over 1960 trade levels.

Similarly, it was estimated that Canadian exports of manufactured goods and industrial materials would increase $96 million, its imports would increase $410 million, resulting in a net total change in its trade balance of a $288 million deficit. Common Market exports were estimated to increases by $910 million, imports by $699 million, resulting in a total gain of $1 million in its trade balance over 1960 levels. EFTA exports were estimated to increase by $620 million, imports by $733 million, resulting in a net gain in its trade balance of $32 million over 1960 levels. Finally, it was estimated that Japanese exports of manufactured goods and industrial materials would increase by $310 million, its imports by $158 million, yielding a total net gain in the Japanese trade balance of $213 million over 1960 levels.[69]

However, these estimates have proved to be extremely low. By 1969, when the first two stages of the Kennedy Round tarriff reductions were complete, reductions which were in total less than the fifty percent hoped for, United States Exports to Canada, the EEC, EFTA, and Japan had increased by $9.107 billion over their 1960 levels in manufactured goods alnoe (Standard International Trade Classification groups 6,7, and 8). Imports by the United States of manufactured goods from the same trading partners increased by 1969 by $13.570 billion over their 1960 levels. The net result was a deterioration in United States trade balance from a deficit of $217 million in 1960 to a deficit of $4.68 billion in 1969.[70]

69. Balassa, Trade Liberalization Among Industrial Countries 217, Appendix Table 4.4 (1967).
70. See Tables A-3,5,6,8 and B-3,5,6,and 8, attached infra.

Revising these statistics to parallel the scheme used in previous trade liberalization estimates, to include both industrial goods (SITC 2 and 4 and unwrought metals) and manufactured goods (SITC 5 through 8 minus unwrought metals (67 and 68))[71], the trade figures do not change substantially. American exports of manufactured products and industrial goods to Canada, the EEC, EFTA, and Japan have increased by $10.562 billion from 1960 to 1969. Imports in the same groups have increased during the same period by $14.602 billion. The net result has been a decrease in the United States trade balance from $1.320 billion in 1960 to a deficit of $2.720 billion in 1969, a decline of $4.04 billion.[72]

However, these declines in the American trade balance reflect only part of the trading network in which the United States is involved, and, as previously stated, the results of only the first two stages of Kennedy Round reductions in tarriff barriers. Investigating the actual reductions in tarriff barriers in particular commodity groups, increases in trade flows in those areas might be more effectively explained.

United States imports of commodities in the primary goods areas have been traditionally restricted by relatively low tarriffs, though mixed with higher tarriffs in agriculture related areas. During the Kennedy Round, in areas protected by relatively high tarriffs, lower reductions were agreed to, and, conversely, higher reductions were agreed to in areas previously given lower protactive tarriffs. Hence, tarriffs on foodstuffs and beverages and tobacco (SITC groups 0 and 1)

72. See Tables A 3, 5, 6, 8 and B 3, 5,,6, and 8 infra.

were lowered a maximum of 8 percent of their pre-Kennedy Round values as a result of trade negotiations during the last decade.[73] By 1969 only the first two stages of total tarriff reductions had been completed, and hence, tarriff reductions by that date in these (and all other) commodity categories were substantially lower than the total tarriff reductions shown here (probably in the order of forty percent of the total agreed reduction). The full tarriff reduction scheme was scheduled to be completed by the beginning of 1972.

Between 1962 and 1969 United States imports from the world in these commodities increased by 42.8 percent, from $3.53 billion to $5.04 billion, with the greater part of the increase (29.9 percent) occuring between 1965 and 1969.[74] During the same seven year period, United States imports from Canada in these commodity categories increased by 65.2 percent, from $345 million to $570 million[75] Increases in imports in these commodity groups showed greater percentage increases but lower absolute values from the EEC and EFTA.[76] Imports from Japan showed both lower absolute values and lower percentage increases.[77] By far the greatest absolute increase in United States imports (though not the largest %age increase) of foodstuffs, beverages and tobaccos was derived from imports of these commodities from developing countries, as might be expected. Between 1962 and 1969, imports of these commodities from developing countries increased from $2.18 billion to $2.81 billion, representing an increase of 28.9 percent.[78]

73. See Tables D-5 and 4, infra.
74. See Table B-1, infra.
75. See Table B-3, infra.
76. See Tables B-5 and 6, infra.
77. See Table B-8, infra.
78. See Table B-2, infra.

During the period from 1962 through 1969, United States exports of foodstuffs, beverages and tobacco to the world increased from $3.68 to $4.45 billion, or 20.9 percent.[79] The greatest proportion of imports during these years went from the United States to developing countries[80] and the European Common Market.[81] Available tarriff figures[82] show the EEC as having reduced tarriffs through the Kennedy Round on these commodities by a maximum of 25 percent, by far the greatest reduction in tarriffs levied on foodstuffs, beverages and tobacco.[83] Yet, Japan showed itself to be the greatest recipient of increases in United States exports in these categories, both in absolute and percentage terms.[84], and showed the greatest improvement in a favorable United States trade balance.[85] In fact, while the EEC provided a much greater tarriff reduction through the Kennedy Round, and a much lower absolute nominal tarriff level, the United States trade balance with the EEC declined, though remaining highly positive, between 1962 and 1969.[86]

Similar trends were revealed in the case of crude materials (SITC 2) and oils and fats (SITC 4). United States imports of these materials increased from $2.96 billion in 1962 to $3.49 billion in 1969, or 17.9 percent.[87] Traded imports in these categories from Canada increased from $1.13 billion to $1.65 billion during the period, representing a 46.0 percent increase.[88] Imports from the EEC showed a smaller absolute and percentage increase[89], while imports from EFTA and Japan showed actual and percentage declines.[90] Again, imports

79. From 1962 to 1969, the United States experienced a decline in its trade balance with the world from a surplus of $150 million to a deficit of $590 million, representing a net change of $740 million to the worse. See Tables A-1 and C-1, infra.

from developing countries of these commodities revealed large increases, increasing by 10 per cent between 1962 and 1969, and rising from $1.2 billion to $1.32 billion.[91] Kennedy Round reductions by the United States were 28 percent in crude materials (SITC 2) and 20 percent in oils and fats (SITC 4) of their respective pre-Round levels.[92]

While the reductions in tarriff levels in the oils and fats grouping by the United States were by far the largest, reductions made by Japan nearly matched our own.[93] The largest reduction in the tarriff level imposed upon the crude materals grouping was made by the EEC in its common external tarriff.[94] While the EEC was the largest importer of United States goods in these commodity groupings[95], Japan showed the greatest absolute and relative increases in imports, and nearly equaled the EEC in total imports in this category.[96] Likewise, the United States trade balance with Japan demonstrated the greatest improvement[97], perhaps because of significant reductions in tarriffs levied on both categories of goods[98], though the trade balance with the EEC showed nearly equal positive gains, and provided the greatest surplus in these groupings.[99] The greatest trade deficits experienced by the United States throughout the period occured in United States trade with developing countries[100], and Canada[1], results which might reasonably be expected.

80. See Table A-2, infra. 81. See Table A-5, infra.
82. Explanation of available tarriff figures is provided in the Appendix, infra.
83. Of available tarriff figures, none were found available for tarriff reductions in foodstuffs (SITC 0), chiefly because no agreement was reached during the Kennedy Round on reductions in tarriffs imposed upon these commodities. See Table D-1 and Appendix, infra.
84. See Table A-8, infra. 85. See Table C-8, infra.
86. See Table A-5, infra. 87. See Table B-1, infra.

In the last of the primary product categories, mineral fuels (SITC 3), again almost identical trends were evident. United States imports of mineral fuels increased dramatically between 1962 and 1969, rising from $1.77 to $2.84 billion, or by 60.5 percent during the period.[2] Imports of mineral fuels from Canada again experienced the greatest relative increase, increasing by 131.7 percent, but only the second largest absolute increase, from $315 million to $730 million.[3] Trade with the EEc, EFTA and Japan in mineral fuels resulted in negligible increases in imports from those areas.[4] And, again, imports of mineral fuels from developing countries showed the greatest absolute gains, increasing from $1.44 to $1.97 billion during the period, while showing significant relative gains.[5] Somewhat surprisingly, these gains occured without any diminution of tarriff levels in this category by the United States.[6] though they might be explained by initially low tarriff levels (combined with highly restrictive quotas), and a rapidly increasing domestic demand.

Exports by the United States increased from $800 million to $1.13 billion, or by 41.3 percent, in this product category during the period[7] While the EEC and EFTA made the most significant cuts in their respectively low tarriff levels[8], and Japan made the smallest reductions[9], the greatest relative and absolute increase in United States exports was directed towards Japan.[10]

88. See Table B-3, infra. 89. See Table B-5, infra.
90. See Tables B-6 and 8, infra. 91. See Table B-2, infra.
92. See Tables D-4 and 5, infra. 93. See Table D-3, infra.
94. See Table D-1, infra. 95. See Table A-5, infra.
96. See Table A-8, infra. 97. See Table C-8, infra.
98. See Table D-3, infra. 99. See Table C-5, infra.
100. See Table C-2, infra. 1. See Table C-3, infra.
2. See Table B-1, infra. 3. See Table B-3, infra.
4. See Tables B-5, 6, and 8, infra. 5. See Table B-2, infra.
6. See Tables D-4 and 5, infra. 7. See Table A-1, infra.

The most significant improvement in the United States balance of trade in this category again occured with Japan[11], and the greatest deteriorations in the trade balance occured with the developing countries[12], and Canada[13].

In the three major groupings of manufactured and semi-manufactured products, somewhat consistent trends appear in both the importation and exportation of goods by the United States. In the first of these, chemicals (SITC 5), the United States made the largest cuts in tarriff levels, approaching fifty percent of their pre-Kennedy Round values.[14] The American market increased its imports of chemical products from the world by 133.0 percent during the period from 1962-1969, importing $485 millions in chemical products in 1962, and $1.13 billions in 1969.[15] The most substantial part of the increase in imports in this commodity category were accounted for by increases in imports from the EEC[16], and Canada.[17] Levels of imports by the United States from developing countries, EFTA, and Japan, while appreciable, were significantly lower.[18] Greatest relative increases in imports were found in Japan and EFTA[19], but relative increases in chemical imports during the period by the United States from the EEC and Canada were nearly as great.[20]

During the same period, the United States increased its exports of chemical products by 79.8 percent, raising export levels from $1.88 billion in 1962 to $3.38 billion in 1969.[21] At the same time, the United States improved its world commodity trade balance by $855 million, from $1.395

8. See Tables D-1 and 2, infra. 9. See Table D-3, infra.
10. See Table A-8, infra. 11. See Table C-8, infra.
12. See Table C-2, infra. 13. See Table C-3, infra.
14. See Tables D-4 and 5, infra. 15. See Table B-1, infra.

billion in 1962 to $2.25 billion in 1969.[22] Most significant reductions in tarriff levels were made by the Japanese[23], who also experienced the greatest relative increase in imports of chemical products from the United States.[24] However, the greatest absolute increases in American exports occured in the developing countries and the European Economic Community.[25], who also provided the greatest improvements in the American commodity trade balance during the period.[26] Importantly, in none of the geographic areas considered did American exports of chemical products decline during the period, and in no case did the American trade balance deteriorate.

In the second major commodity grouping in the manufacturing area, that of semi-manufatures and manufactures (SITC 6) and miscellaneous manufactures (SITC 8), the United States reduced its tarriff barriers by 31 and 27 percent respectively.[27] From 1962 to 1969, the United States experienced its second greatest absolute and relative increases in the manufacturing area, raising its imports of foreign manufactures from $5.19 to $12.22 billions, resulting in an overall relative increase of 133.5 percent.[28] While import levels from all the geographic regions considered were high, and demonstrated substantial absolute and relative gains, the largest absolute gains were made in imports from Japan and the developing countries.[29] Similarly, the largest relative gains were made by the developing countries, who increased their exports to the United States by 197.7 percent during the period, and by Japan, which

16. See Table B-5, infra. 17. See Table B-3, infra.
18. See Tables B-2, 6 and 8, infra. 19. See Tables B-6 and 8, infra.
20. See Tables B-5 and 3, infra. 21. See Table A-1, infra.
22. See Table C-1, infra. 23. See Table D-3, infra.
24. See Table A-8, infra. 25. See Tables A-2 and 5, infra.
26. See Tables C-2 and 5, infra. 27. See Tables D-4 and 5, infra

increased its exports to the United States by 190.8 percent during the period.[30] That the developing countries have been able to increase their exports to the United States so dramatically in this commodity category is somewhat surprising, especially since declining portions of their exports in the grouping are of ferrous (SITC 67) and non-ferrous (SITC 68) metals, the major quasi-primary products in the category.[31]

Partially because of the tremendous increase in imports of manufactured goods by the United States, and partially because of the relatively slow expansion of this export sector within the United States, the American trade balance with the world has declined seriously. Between 1962 and 1969, the United States experienced a net decline in its world commodity trade balance of some $4.0 billion, with the trade deficit increasing steadily from $1.2 billion to $5.2 billion during the period.[32] During the period, the United States increased its exports to the world from $3.99 billions in manufactures in 1962 to $7.02 billions in 1969.[33] Yet, in comparison with all other geographic areas considered, the United States experienced the smallest relative growth of exports during the period, raising manufactured exports by 75.9 percent.[34] Again, the largest tarriff reductions in both commodity groupings were made by Japan[35], which again experienced the largest relative growth of exports from the United States[36], but also induced the most significant deterioration in the United States commodity trade balance.[37]

28. See Table B-1, infra.
29. See Tables B-8 and 2, infra.
30. See Tables B-2 and 8, infra.
31. See Table B-2, infra.
32. See Table C-1, infra.
33. See Table A-1, infra.
34. See Table A-1, infra.
35. See Table D-3, infra.
36. See Table A-8, infra.
37. See Table C-8, infra.

Greatest absolute gains in American exports were made to Canada, the EEC, and the developing countries, which consistently received the highest levels of American exports.[38]

The final major manufacturing product category, machinery and transport equipment (SITC 7), provided the largest growth in imports by the United States from the world, in both absolute and relative terms. Between 1962 and 1969, the United States increased its imports of machinery and transport equipment from $1.86 to $10.27 billions, a rise of 452.2 percent.[39] American tarriff reductions from initially low tarriff levels in this category were significant, nearly equalling the fifty percent hoped for in the Kennedy Round.[40] The greatest absolute increase in imports by the United States was from Canada, an increase which far exceeded those registered by other geographic areas considered, more than equalling the increases in American imports from the EEC and Japan combined.[41] Simultaneously, the greatest importation of foreign machinery and transport equipment was from Canada. Likewise, while Japan and the EEC showed large relative gains of exports to the United States, the relative gain experienced in Canadian exports to the United States was by far the largest, growing some 1164 percent between 1962 and 1969.[42]

The machinery and transport equipment sector also provided the United States the greatest absolute growth and highest absolute level of exports to the world. American exports of machinery and transport equipment increased from $8.06 to $16.4 billions, or 103.5 percent, between 1962 and 1969.[43] Further,

38. See Tables A-3, 5 and 2, infra.
39. See Table B-1, infra.
40. See Tables D-4 and 5, infra.
41. See Table B-3, infra.
42. See Table B-3, infra.
43. See Table A-1, infra.

the category provided the United States with the highest trade surplus throughout the period, declining slightly from $6.2 billion in 1962 to $6.13 billion in 1969.[44] Again, the largest tarriff reductions of export target areas was made by Japan[45], though tarriff reductions made by the EEC were not significantly lower and resulted in a lower absolute tarriff level.[46] The largest absolute and relative gains of American exports of transport equipment and machinery were made in Canada[47], though absolute and relative gains in all other geographic areas were not insubstantial. The greatest deteriorations in the American commodity trade balance were found in Japan, where the American trade surplus of $105 million in 1962 was converted into a $1.02 billion trade deficit by 1969.[48] Greatest improvement occured in developing countries, where American commodity trade surpluses increased from a 1962 level of $2.64 billion to a 1969 level of $4.06 billion, an improvement of $1.416 billion.[49]

Applying international trade theory to the empirical results henceforth enunciated, certain results may be clarified. In all primary product categories, greatest relative and absolute growth in American imports derived from imports from the developing countries or Canada, and greatest relative and absolute growth of American exports was found to occur in Japan (though the EEC experienced high absolute growth of American exports in two categories). Much of this division may be attributed to relative comparative advantages

44. See Table C-1, infra.
45. See Table D-3, infra.
46. See Table D-1, infra.
47. See Table C-3, infra.
48. See Table 6-8, infra.
49. See Table C-2, infra.

in productive factor inputs. In respect of the United States, the developing countries may present a relative comparative advantage in labor, and Canada may present a relative comparative advantage in natural resources (particularly minerals). Likewise, in respect of Japan or the EEC, the United States may present a relative comparative advantage in both labor and capitalization of primary product industries. Further, the relative lack of productive factor availability may set a physical limit upon the degree to which the EEC or Japan may be able to harvest all the benefits of economies of scale in primary product industries.

The results are more difficult to explain in the case of the manufactured good categories, in which the EEC, Japan, and Canada have experienced large increases in both exports to and imports from the United States. A great increase in foreign exports to the United States may be explained partially, at least, by the ability of more industrialized nations to reap the benefits of economies of scale through trade expansion. Where internal markets are relatively small and efficient production demands high capitalization of industrial factors, and where investment levels are sufficiently high to create high supply elasticity, as seems to be the case in all of the areas experiencing large growths in exports of manufactured goods to the United States, it is possible that efficiency may demand an expansion of market size through trade liberalization. Further, it is also more than likely that much of the increase in American imports may be accounted for by high domestic propensities to consume, and by the desire for greatly differentiated products.

Finally, it is likely that serious deteriorations in the American trade balance in two of the manufactured goods categories (as well as the relatively and absolutely great increases in American exports to equally industrialized countries) may be accounted for by the extremely high capitalization of industries in those categories in the United States. High capitalization may result in low supply elasticity, and consequent low growth rates. This possibility may be evidenced by low relative growth rates in each of the categories of manufactured goods. But, this seems less plausible in view of high rates of domestic investment and rapid technological change within the United States. More probably, growth in manufactured imports as well as exports should be predominantly attributed to the greater product differational opportunities which such trade provides domestic consumers, and to a lesser extent, to the lower prices whic imports may offer. It may be that a more detailed examination of trends in international trade flows, combined with investigation of domestic market structures is necessary to provide a full explanation of the trends seen here in only the crudest of analytical terms.

It is also apparent from the discussion here that imports have increased rapidly, in part as a result of trade liberalization and that it is likely to continue to do so in view of additional tarriff reductions subsequent to those referred to. Hence, it seems probable that some domestic market disruptions will occur within the United States, which may be productive of displacement of some domestic labor into more competitive industrial sectors. The policy implications of these, even all too obvious conclusions, readily follow.

V

While the United States has experienced declining international trade balances for several years, and trade deficits during the past two[50], the conclusion must remain that such deteriorations are temporary fluctuations, comparable to those previously experienced. The competitive position of United States industry has remained strong throughout the period considered, despite recent deficits. Indeed, American exports in all sectors have increased significantly. Strong positive gains in the American trade balance have been made in the crude materials and oils and fats (SITC 2 and 4) and chemicals (SITC 5) sectors. While the American trade balance in machinery and transport equipment (SITC 7) declined slightly, it remained highly positive. Until as recently as 1967 the American trade balance in foodstuffs (SITC 0) and beverages and tobaccos (SITC 1) remained positive, though subject to significant fluctuations. In these commodity groups, furthermore, the lowest reduction in tarriffs occured during the Kennedy Round, with no agreement at all being reached on foodstuffs tarriff or quantitative restriction reductions, and in these groups, American industry shows the most significant comparative advantage in respect of other industrialized nations. The only significant deteriorations in the American trade balance occured in the semimanufactured and manufactured goods (SITC 6) and miscellaneous manufactures (SITC 8) and mineral fuels (SITC 3) product sectors. Yet, these deteriorations must be considered in light of their potential satisfaction of domestic consumption demands and preference for product differen-

50. See p. 5, n. 18, supra.

tiation.[51] Hence, it seems as though further attempts at trade liberalization should be beneficial to the United States, especially if favorable concessions may be derived in product sectors in which the United States is most strongly competitive.

Political pressures, again, may dictate a "tough negotiating line" in such further trade liberalization rounds, but pressures towards protectionism should be strongly resisted. Increases in tarriff and non-tarriff barriers while temporarily expedient as involving of income distributional changes in favor of labor might seriously impair the competitive position of American industry as a result of foreign retaliation. In the longer run, therefore, protectionist legislation might result in an overall decline in national welfare, or the rate of growth of national welfare, and may injure those interests which temporary political pressures now design to protect. Instead, as previously suggested, a combination of taxes and subsidies should be utilized to improve the competitive position of injured domestic industries or to provide assistance in reallocation of productive resources to more competitive market sectors. Further, emphasis should be placed on improved monetary stability on both the national and international levels, to diminish the detrimental effects upon real income of rapid inflationary increases in costs and prices, and upon increased investment rates in efficient market sectors to increase capital liquidity and raise supply elasticities. Finally, increased emphasis should be placed upon derivation and exploitation of technological advances through higher research and development expenditures, in order to create new and competitive market sectors.

51. See Table C-1, Infra.

It remains only to consider the aims and possible effects of legislation currently pending in the Congress.

The Hartke-Burke bills[52] are fundamentally protectionist in motivation and purpose[53]. They propose to restrict importation of all goods through the use of quantitative restraints[54] making the importation of goods constant in proportion to the production of domestic goods:

> "The total quantity of each category of goods... produced in any foreign country which may be entered during the calender year 1974 shall not exceed the average annual quantity as determined by the (new Foreign Trade and Investment) Commission of such category produced in such country and entered during the calender years 1965 to 1969." (55)
> "The Commission shall increase (or decrease) the total quantity of each category of goods produced in any foreign country which may be entered during any calender year after 1974 by an amount which the Commission estimates is necessary in order to make the total quantity of imports in each category bear the same relationship to United States. production of the goods in such category as existed during the period 1965 to 1969." (56)

In doing so, the Hartke-Burke bills seemingly accept several of the arguments advanced by those who attack the trade expansionist position. First, such quantitative restrictions might potentially provide a control mechanism to adjust imports to changing domestic rates of growth, thereby reducing the effects of imports in creating fluctuating American trade balances. Second, the imposition of such quotas might be designed to protect several import-competitive sectors until their efficiency increases to adjust to foreign competition. Such an aim would reflect a partial acceptance of the "infant industry" argument for protection. Finally, protective quotas might be designed to maintain current income distributions to factor

52. S. 151, H.R. 62, 93d Cong., 1st Sess. (1973).
53. See p. 3, supra.
54. S. 151, §301.

inputs, particularly labor, by maintaining import levels in constant proportion to domestic production.

However, while certain market sectors "such as textile products, footwear, watches, and certain steel products" may be "import-sensitive"[57], to impose quantitative restrictions on all imported goods is almost certain to invite retaliation by foreign importers of American products, resulting in new and seriously detrimental rounds of trade restrictive warfare. Further, it is difficult to imagine how even these "import-sensitive" product sectors may reasonably be regarded as "infant industries", in view of their high domestic production and relatively high attraction for domestic investment. Indeed, there may be adverse consequences to domestic welfare and income distribution to the labor sector resultant from retaliatory foreign imposition of like quantitaive restrictions. Lastly, fluctuating trade balances and domestic income distribution may be better controlled through use of alternative means involving of monetary stabilization and a system of taxes and subsidies.

Additionally, the Hartke-Burke bills propose to limit the flow of American investment abroad by altering provisions of existing tax laws[58], to eliminate deferred payments of taxes on income earned abroad[59], and by repealing sections of the tax laws which permit corporations and individuals to deduct as tax credits taxes payed to foreign governments on income earned abroad[60]. Here, again, the bill seems to accept the

55. S. 151 §301(a), 93d Cong., 1st Sess. (1973). 56. S.151§301(b)(2)(A)
57. H.R. Exec. Doc. No.80, 93d Cong., 1st Sess. (1973), at 9.
58. Internal Revenue Code of 1954 §§983-988 (1954).
59. S.151 §102. 60. S.151§103.

protectionist argument that unemployment may be accounted for by high rates of foreign investment causative of idling of domestic productive facilities. The argument seemingly would be that restraint of American investment abroad might promote domestic investment rates, thereby raisning supply elasticities and improving the ability of American industry to compete with or adjust to high rates of importation of foreign commodities.

Here, arguments advanced by trade protectionist through the Hartke-Burke bills may have more merit, though restriction of foreign investment through change in current tax laws may not diminish American exports of capital to regions which present great business opportunities, or change domestic rates of investment in more competitive sectors. Further, the assumption underlying the desire to restrict American investment abroad may itself be unfounded:

> "...some people have feared that American investment abroad will result in a loss of American jobs. Our studies show, however, that such investment on balance has meant more and better jobs for American workers, has improved our balance of trade and our overall balance of payments, and has generally strengthened our economy...If we restrict the ability of American firms to take advantage of investment opportunities abroad,we can only expect that foreign firms will seize these opportunities and prosper at our expense." (61)

Indeed, as we have seen, perhaps the most insistent complaint on part of the Europeans has been that American firms have been able to invest in Europe at high rates[62], by taking advantage of common European corporate laws, where European firms have not been able to do so.[63]

Finally, of all the bills now considered[64], the Hartke-Burke bills provide the most significant changes in provisions

61. H.R. Exec. Doc. No. 80, 93d Cong., 1st Sess. (1973), at 11.
62. See p. 8, n. 28 and 29, supra.

in existing law[65], providing for tarriff relief or adjustment assistance to industries, firms, or workers seriously injured by increases in imports. Under Hartke-Burke provisions, the Foreign Trade and Investment Commission (created therein) is required on petition to

> "promptly make an investigation to determine whether an article is being imported into the United States in such increased quantities, either actual or relative as to contribute substantially (whether or not such increased imports are the major factor or the primary factor) toward causing or threatening to cause serious injury..." [illegible] (66) (Emphasis added)

to the domestic industry, firm or group of workers applying for tarriff relief or adjustment assistance under the provisions of the Act. Currently extant provisions require that "serious injury" to the domestic industry, firm or group of workers engaged in direct or indirect competition with imported products be the result "in major part of concessions granted under trade agreements".[67] As previously noted, until recently adjustment assistance provisions under the Trade Expansion Act of 1962 have not been used[68], as a result of conflict over the meaning of "in major part" in determining whether increases in imports have caused or have threatened to cause serious dislocations in American industries.[69] Here, the Hartke-Burke bills provide clear and unambiguous direction, and yield the greatest possibility of protection to domestic market sectors likely to be in need of substantial assistance as a consequence of increased imports. Hence, the Hartke-Burke bills go furthest here in providing needed systems of taxes and subsidies to

63. See p. 8, supra., but see also Vernon, Rogue Elephant in the Forest, 51 Foreign Affairs 585 (1973) and Servan-Screiber, The American Challenge 19 (1967).
64. S.151, S.1156, H.R.62, H.R.6767, 93d Cong., 1st Sess. (1973).

increase the competitiveness of import-competing sectors, or to provide conversion to other, more efficient market sectors, and cannot thus be faulted.

In comparison, the Nixon-Mills bill[70] provides tarriff relief to industries adversely affected by increases in imports upon determination by the Tarriff Commission that a good

> "is being imported in such increased quantities as to be the primary cause of serious injury, or threat thereof, to the domestic industry producing articles like or directly competitive with the imported article." (71) (Emphasis added)

Further, the Nixon-Mills bill provides further clarification of the circumstances under which import relief might be given to industries adversely affected or under which expeditious consideration will be given to petitions from workers for adjustment assistance, by directing that

> "If the Tarriff Commission finds serious injury or threat thereof, a finding of market disruption shall constitute prima facie evidence that increased quantities of the like or directly competitive articles are the primary cause of such injury or threat thereof." (72)

and defining primary cause as "the largest single cause"[73]. The bill further refines the description of market disruption by directing that

> "market disruption shall be found to exist 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." (74)

Hence, the Nixon-Mills bills provide a clear statement of the conditions under which tarriff relief may be granted to industries by combining a relatively stringent requirement of

65. Trade Expansion Act of 1962 §§301, 19 U.S.C.A. §1901 (1962).

a showing that imports are the largest single cause of serious injury with the import related definition of market disruption, somewhat satisfying protectionist demands for restrictions of imports relative to domestic production.

The Nixon-Mills bill, somewhat surprisingly eliminates all adjustment assistance to individual firms, suggesting that "this program has been largely ineffective, discriminates among firms within a given industry and has needlessly subsidized some firms at the taxpayer's expense" and that "(c)hanging competitive conditions...typically act not upon particular firms but upon an industry as a whole".[75] However, this elimination of adjustment assistance to individual firms ignores the possibility of differences in market penetration of imports in different geographic areas, requiring possible assistance to a number of firms directly or indirectly competitive less than an entire industry.

Lastly, in its adjustment assistance provisions, the Nixon-Mills bill closely parallels the Hartke-Burke proposals in requiring a showing of "substantiality" of cause in determining grants of adjustment assistance to groups of workers, while providing a much clearer definition of what constitutes a "substantial cause" of serious injury.[76]

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66. S. 151 §501, 93d Cong., 1st Sess. (1973).
67. Trade Expansion Act, 19 U.S.C.A. §§1901(b)(1),(c)(1) and (c)(2)(1962).
68. See p.5, n.20, supra.
69. See Schwartz and Fulda, Regulation of International Trade and Investment 399 to 421 (1970).
70. H.R. 6767, 93d Cong., 1st Sess. (1973).
71. H.R. 6767 §201(b)(1).
72. H.R. 6767 §202(a).
73. H.R. 6767 §201(b)(5).
74. H.R. 6767 §201(f)(1)
75. H.R. Exec. Doc. No. 80, 93d Cong., 1st Sess. (1973), at 7.
76. H.R. 6767 §222.

Inter alia, the Percy bill[77] combines the approaches of the Nixon-Mills and Hartke-Burke bills by providing that tarriff relief may be sought by an industry upon a showing that imports have been the "primary cause" of serious injury[78], and that adjustment assistance may be sought by individual firms, groups of workers, or a newly created category of "communities" upon a showing that imports have been a "substantial cause" of serious injury.[79]

In addition to these adjustment assistance and tarriff relief provisions, the Nixon-Mills bill alters the structure of unemployment compensation and pension benefits[80], and provides for "job search allowances" to workers displaced by import competition.[81] Both the Percy bill and the Nixon-Mills bill provide additional "relocation allowances" alterations[82], while the Percy bill further alters existant provisions for "retraining allowances".[83]

Far more significant are the steps suggested in the Nixon-Mills bill towards a grant of Congressional authority to the President to engage in a new round of tarriff negotiations with the EEC, Japan, and associated industrial countries, and to control the effects of import increases on the domestic market subsequent to additional tarriff reductions. First, the bill would grant the President authority to negotiate reductions in current tarriff levels over a period of five years, with no apparent limit on the total reductions in tarriff which might be made.[84] Second, the bill requests Presidential authority

77. S. 1156, 93d Cong.,1st Sess., (1973).
78. S. 1156 § 2.
79. S. 1156 §§2 and 16.
80. H.R. 6767, Title II subchapter C, 93d Cong., 1st Sess. (1973).
81. H.R. 6767 §235.
82. H.R.6767 §236; S.1156 §12.
83. H.R.6767 §234; S.1156 §10.
84. H.R. 6767 §§102 and 103.

to negotiate reductions in non-tarriff barriers[85], which now rival tarriffs as obstructions to free trade.[86] Further, the bill provides Presidential authority to renegotiate the American valuation of imports through the American Selling Price[87], which was never acted upon after the Kennedy Round, though negotiations relied upon its elimination during that Round.[88] In all cases, the President would be required to give Congress ninety days notice of his intention to enter into an agreement[89], and, in all cases, Congress subsequent to the transmission of the agreement to it by the President has ninety days within which it may disapprove of the actions which the President has taken.[90]

In addition, the bill grants the President authority to extend most favored nation treatment to any nation under the GATT, where he deems it to be in the national interest, provided Congress does not disapprove of his actions within three months.[91] Further, the Nixon-Mills bill grants the President authority to extend tarriff preferences to certain less-developed countries under specified conditions.[92]

Finally, the bill seeks to grant the President authority to adjust tarriff rates within certain limits to correct certain imbalances in our economy. The Nixon-Mills bill would give the President authority to adjust tarriff rates on a temporary basis "in the presence of a serious balance of payments deficit or a persistent surplus, or to cooperate in correcting an international balance of payments disequilibrium" [93], or "during a period of sustained or rapid price increases"[94] to

85. H.R. 6767 §103(b), 93d Cong., 1st Sess. (1973).
86. See Bergsten, Crisis in U.S. Trade Policy, 49 For. Affairs 626(1971).
87. H.R. 6767 §103(c).
88. See Bergsten, op cit., p. 619.

regulate inflationary tendencies. Additionally, the bill grants the President permanent authority to "enter into supplemental tarriff agreements with foreign countries...to modify or continue any existing duty, continue any existing duty free or excise treatment, or impose additional duties, as he determines to be required or appropriate to carry out any such supplemental agreements"[95], provided that such adjustments will not affect more than two percent of the value of United States imports for the preceding year[96], and provided that decreases in tarriff levels shall not exceed 20 percent and that increases shall not exceed 50 percent of the value of the existing tarriff.[97]

In short, the Nixon-Mills bill grants to the President extremely broad authority, probably unprecedented authority, to negotiate reductions in tarriffs and other quantitative barriers to trade, and to control the effects of increases of such trade subsequent to negotiations. These grants of authority are requested by the President in recognition of the results of the Kennedy Round, after which many agreed advances in trade liberalization were nullified by Congressional action. It is also in recognition of the European and Japanese desires to negotiate agreements which will be far reaching in effect, and unlikely to be reduced by subsequent legislative actions. Indeed, in submitting the bill to the Congress, the President suggested that

> "Negotiators from other countries will bring to the coming round of trade discussion broad authority to alter their barriers to trade. Such authority makes them more effective bargainers; without such authority the hands of any negotiator would be severely tied...Unless these authorities are provided (to the President), we will be badly hampered in our efforts to advance American interests and improve our trading system." (98)

However, in view of current Congressional-Executive disputes over the proper distribution of decision making authority between the two departments of the United States government, it seems highly unlikely that such a broad grant of authority will be secured by the President, at least insofar as it purports to be "permanent" in character, either legally or precedentially.

The Nixon-Mills bill responds to the demands of the trade liberalizationist argument in several respects. First, its overall emphasis relies upon the beneficial effects which might result from further reductions in tarriff and other trade barriers. It suggests a lowering of domestic prices in consequence of domestic and international specialization in market sectors in which the United States and its partners have comparative advantages. Second, it recognizes that even industries in a market as large as that of the United States may reap additional benefits accruing from economies of scale. Third, it accepts the theoretical proposition that enlargement of domestic markets may result in a decline in unemployment levels, as productive factors are reallocated to competitive sectors. It further relies upon this reallocative process as a means of diminishing the outflow of capital from the United States to external market target areas, but does little to ensure that such investment will, in fact, be increasingly directed to domestic "reconversions".

Moreover, the Nixon-Mills bill apparently suggests mechanisms which might relieve internal protectionist pressures. Primarily, the bill suggests means to reduce the ad-

verse effects of sustained and high levels of imports upon domestic employment levels, by easing requirements for relief to domestic workers and industry through adjustment assistance. Here, of course, the bill accepts the trade liberalization advocates' argument that a system of taxes and subsidies provide a more effective and desirable means of assisting market reallocations and relocations. The bill does not suggest the source of revenues with which subsidies might be financed, though it may be assumed that they are to be derived from general governmental revenues, thereby distributing the costs of assistance throughout the economy. The bill provides for means by which inflationary pressures which might be the result of import elimination of domestic supply may be controlled, though, presumably, it recognizes that inflationary pressures are largely internal in origin. Further, it provides the executive, who is responsible for the conduct of the foreign policy of the United States as commander-in chief, with means by which balance of payments difficulties may be controlled. In sum, the bill provides means by which the effects of fluctuations within the domestic economy which occur may be controlled, as they affect sudden surges of imports, responding thereby to the strongest of the protectionist arguments.

Further, the Nixon-Mills bill gives authority which is responsive to changing directions of domestic relative comparative advantages. By permitting the negotiation of reductions in quantitative restrictions, the bill may permit full utiliztion of our comparative advantage, in respect of Europe and Japan, in agricultural production. By allowing the negotiation of the elimination of the American Selling

Price system of valuation, it makes possible greater reductions in tarriffs levied upon chemical products, in which United States industry has shown great competitiveness. And, finally, the Nixon-Mills bill recognizes the benefits of availability of opportunities for consumer product differentiation, in view of the relatively small role which imports play as a component of the domestic economy.

VI

The author is convinced that the benefits of trade liberalization far outweigh its domestic costs, both economically and politically. Perhaps more significantly, if the choice must be one between trade liberalization and renewed protectioism, trade liberalization will be infinitely more benficial to both the United States and its European partners than can be its alternative.

Hence, the author is convinced also that broad negotiating powers should be given to the President to seek further reductions in tarriffs, the elimination or reduction of quantitative restrictions, and the elimination of the American Selling Price system of valuation. Additionally, it seems clear that a grant of authority to extend most favored nation treatment to other nations may be politically necessary for the expeditious conduct of our foreign policy, though some control should be retained by the Congress in its capacity as a body which may advise and consent to Presidentially formed policies. Along similar lines, temporary reductions or increases in tarriff levels may be a necessary instrument of economic

89. H.R. 6767, §103(e)(1), 93d Cong., 1st Sess. (1973)
90. H.R. 6767, §103(e)(2).
91. H.R. 6767, Title V.
92. H.R. 6767, Title VI.
93. H.R. 6767, §401(a)

policy available to the President, though, again some control should be retained by the Congress, perhaps in the form of a veto. Permanent authority given to the President by the bill to negotiate subsequent reductions in tarriff or quantitative restriction levels, though severely restricted should not be granted.

Further, the author believes that the adjustment assistance provisions outlined by the Nixon-Mills bill provide the best balance between restrictive application of tarriffs and greater availability of financial assistance to displaced workers and industrial production. The bill should be amended, however, to reinstate provision of adjustment assistance to individual firms adversely affected by increasing imports, requiring of them a showing of "substantial cause", as defined by the bill's other provisions for adjustment assistance, and to add provisions for assistance to communities, by combining the approach of the Percy bill with the definitional requirements of the Nixon-Mills bill.

Finally, the author maintains that the provisions of the Hartke bill restrictive of foreign investment should be rejected, as neither an efficient means of accomplishing its designed purpose, nor desirable in its longer term effects.

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94. H.R. 6767, §405(a), 93d Cong., 1st Sess. (1973).
95. H.R. 6767, §403(a).
96. H.R. 6767, §403(b).
97. H.R. 6767, §403(c)(1) and (c)(2).
98. H.R. Exec. Doc. No. 80, 93d Cong., 1st Sess.,(1973), at 4.

In the final analysis, then, trade liberalization is seen as a desirable end, productive of both greater economic welfare and of strengthed political ties within the Atlantic Community. Indeed, Europe should be looked upon not as a competitor to the interests of the United States, but as its most important partner. Not much has changed since 1962, when President Kennedy, speaking to the Congress on behalf of trade liberalization said:

> "...a freer flow of trade across the Atlantic will enable the two giant markets on either side of the ocean to impart strength and vigour to each other, and to combine their resources and momentum to undertake the many enterprises which the security of free peoples demands. For the first time, as the world's greatest trading nations, we can welcome a single partner whose trade is even larger than our own - a partner no longer divided and dependent, but strong enough to share with us the responsibilities and initiatives of the free world." (99)

If the United States is to refrain from either a drastic turn to isolationism and protectionism, or to an even more rigourous and probably catastrophic assertion of its vast powers in world affairs, the United States must turn towards Europe. If trade liberalization can, with some certainty, lead to a sharing of economic and political responsibility between the United States and its major partners, then trade liberalization must occur. The Year of Europe is upon us.

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99. The Kennedy Round: Estimated Effects on Tarriff Barriers, UNCTAD Doc. TD/6/Rev. 1 (1968)

APPENDICES

APPENDICES A, B, AND C: U.S. TRADE BALANCE, BY CATEGORY

All Tables in these appendices were derived from statistics provided in Handbook of International Trade and Development Statistics, UNCTAD Doc. TD/Stat. 4 (1972), which breakdown exports by product categories (Standard International Trade Classifications) in matrices designating country of origin and country of destination.

All reported values are given in f.o.b. terms, and hence, values given for foreign exports to the United States (Tables B-1 through 8) are not precisely identical to United States imports from the countries of origin studied, apart from differences in systems of valuation.[100]

Developing countries (Tables A-2, B-2, and C-2) are all countries not included in the developed market economies[101], or socialist market economies[102].

SITC categories considered are as follows:
SITC 0-9, Network of total exports[103]; SITC 0+1, Network of exports of food, beverages, and tobacco[104]; SITC 2+4, Network of exports of crude materials (excluding fuels) and oils and fats[105]; SITC 3, Network of exports of mineral fuels[106]; SITC 5, Network of exports of chemicals[107]; SITC 6+8, Network of exports of manufactured and semimanufactured goods and miscellaneous manufactures[108]; SITC 67, Network of exports of iron and steel[109]; SITC 68, Network of exports of non-ferrous metals[110]; and SITC 7, Network of exports of machinery and transport equipment[111]. SITC 67 and 68 are given for comparative purposes, to show the importance of the respective categories in the manufactures grouping (SITC 6+8). Years considered are 1955, 1960 through 1969.

Percentage changes in Tables A-1 through 8 and B-1 through 8 were calculated from the values of exports therein listed. The U.S. Trade Balance, Surplus of Exports Over Imports given in Tables C-1 through 8 were calculated by subtracting comparable values in Tables B-1 through 8 from those given in Tables A-1 through 8. Net changes in trade surpluses in Tables C-1 through 8 were calculated from the values of trade surpluses therein listed.
All figures are in millions of U.S. dollars.

100. Handbook of International Trade and Development Statistics, UNCTAD Doc. TD/Stat. 4 (1972), p. iv.
101. Developed market economies are those of the U.S., Canada, the EEC, EFTA, Finland, Ireland, Greece, Spain, Turkey, Yugoslavia, Japan, Australia, New Zealand, and South Africa. 102. Socialist market economies are those of Albania, Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary, Romania, the U.S.S.R., the People's Republic of China, Mongolia, the Democratic People's Republic of Korea, and the Democratic Republic of Vietnam. Ibid, p. iii.
103. Ibid, pp. 46-52
104. Ibid, pp. 316-322
105. Ibid, pp. 332-338
106. Ibid, pp. 98-104
107. Ibid, pp. 114-120
108. Ibid, pp. 348-354
109. Ibid, pp. 130-134
110. Ibid, pp. 142-146
111. Ibid, pp. 166-172.

[At the time of printing, the committee was unable to obtain clearer copies of some of the following tables, therefore they are reproduced as submitted.]

U.S. TRADE BALANCE, BY CATEGORY (SITC Classifications)
From U.S. to World (1955, 1960-70).

TABLE A - 1

Year	SITC 0-9	SITC 0+1	SITC 2+4	SITC 3	SITC 5	SITC 6+8	SITC 62	SITC 68	SITC 7
1955	15430	2100	1910	1130	1120	3180	676	225	5460
1960	20410	3150	2080	810	1800	4080	650	525	7010
1961	20790	3420	3050	760	1820	3930	500	440	7330
1962	21450	3680	2520	800	1880	3990	470	410	8060
1963	23100	4100	2800	950	1900	4320	520	420	8720
1964	26280	4540	3390	910	2320	5060	670	510	9350
1965	27190	4520	2330	950	2400	4920	630	550	10020
1966	30200	5120	2430	980	2680	5420	560	600	11160
1967	31240	4710	3620	1100	2900	5390	560	550	12[illegible]70
1968	34230	4500	3770	1060	3200	5900	610	670	14460
1969	32460	4450	2980	1130	3380	7020	970	860	16400
1970	42500								
%Change 1955-69	[illegible]	111.[illegible]	114.[illegible]	[illegible]	[illegible]	122.[illegible]	43.[illegible]	[illegible]	[illegible]
%Change 1962-69	54.6	20.9	54.0	41.3	70.2	75.9	106.4	102.2	102.5
%Change 1965-69	22.9	-1.5	16.5	12.9	40.9	42.7	54.0	56.4	63.7

U.S. TRADE BALANCE, BY CATEGORY (SITC Classifications)
From U.S. to Developing Countries

TABLE A - 2

Year	SITC 0-9	SITC 0+1	SITC 2+4	SITC 3	SITC 5	SITC 6+8	SITC 67	SITC 68	SITC 7
1955	5760	650	290	210	520	1230	230	29	2010
1960	7090	1350	510	210	630	1250	250	53	2440
1961	7250	1340	510	175	660	1260	240	70	2590
1962	7510	1410	520	180	710	1330	255	105	2660
1963	7970	1590	550	185	710	1400	300	95	2670
1964	8870	1780	670	185	830	1550	335	105	2990
1965	8920	1630	740	200	850	1580	300	135	3230
1966	9990	1940	680	225	1010	1680	245	155	3530
1967	9850	1890	790	230	1060	1660	255	115	3670
1968	10720	1850	800	230	1210	1840	300	160	4200
1969	11130	1610	780	240	1150	2050	375	150	4440
1970	12860								
%Change 1955-69	93.2	147.7	169.0	14.3	121.2	66.7	63.0	417.2	[illegible]
%Change 1962-69	48.2	14.2	50.0	33.3	62.0	54.1	47.1	42.9	[illegible]
%Change 1965-69	24.8	-1.2	5.4	20.0	35.3	29.7	25.0	11.1	[illegible]

U.S. TRADE BALANCE, BY CATEGORY (SITC Classifications)
From U.S. to Canada

TABLE A - 3

Year	SITC 0-9	SITC 0+1	SITC 2+4	SITC 3	SITC 5	SITC 6+8	SITC 67	SITC 68	SITC 7
1955	3330	205	245	290	220	830	165	23	1380
1960	3240	320	325	190	275	970	150	33	1480
1961	3250	355	335	165	285	940	115	34	1400
1962	3970	375	355	160	290	940	110	43	1560
1963	4180	445	385	190	300	940	115	52	1730
1964	4830	420	450	190	325	1110	165	62	2070
1965	5560	435	465	215	380	1300	205	80	2610
1966	6530	460	445	235	410	1470	205	98	3380
1967	7070	420	415	245	430	1480	190	115	3940
1968	7950	460	435	250	460	1550	190	130	4630
1969	8950	530	490	245	510	1880	280	145	5100
1970	8910								
%Change 1955-69	168.7	157.5	100.0	-15.5	131.7	181.5	[illegible]	534.4	271.5
%Change 1962-69	125.4	41.3	38.0	53.1	75.9	100.0	160.6	220.9	225.7
%Change 1965-69	61.0	21.8	5.4	14.0	34.2	44.6	41.5	71.3	87.8

U.S. TRADE BALANCE, BY CATEGORY (SITC Classifications)
From U.S. to Western Europe (total).

TABLE A -4

Year	SITC 0-9	SITC 0+1	SITC 2+4	SITC 3	SITC 5	SITC 6+8	SITC 67	SITC 68	SITC 7
1955	5080	1020	930	355	285	640	230	160	740
1960	7060	1230	1470	275	610	1110	195	380	1500
1961	7110	1490	1270	260	620	1030	94	280	1560
1962	7550	1600	1030	290	650	1010	83	240	1730
1963	8100	1610	1090	410	690	1220	88	255	1820
1964	9090	1680	1370	375	850	1590	155	300	2070
1965	9140	1850	1310	365	880	1570	110	295	2640
1966	9760	2100	1340	350	930	1760	91	295	1860
1967	10060	1790	1340	395	930	1660	94	250	3270
1968	10980	1610	1450	295	1180	1890	98	325	3660
1969	12190	1600	1530	295	1240	2380	275	455	4230
1970	14270								
%Change 1955-69	140.0	56.9	64.5	-16.9	335.1	271.9	19.6	184.4	471.6
%Change 1962-69	61.5	0	48.5	1.7	90.8	135.6	231.3	89.6	144.5
%Change 1965-69	33.4	-13.5	16.8	-19.2	40.9	51.6	150.0	54.2	60.2

U.S. TRADE BALANCE, BY CATEGORY (SITC Classifications)
From U.S. to European Economic Community

TABLE A - 5

Year	SITC 0-9	SITC 0+1	SITC 2+4	SITC 3	SITC 5	SITC 6+8	SITC 62	SITC 63	SITC 7
1955	2590	405	560	215	120	305	74	115	365
1960	3930	540	950	190	395	540	78	215	770
1961	4100	700	820	180	415	560	59	125	860
1962	4530	790	660	210	430	550	47	145	970
1963	4860	790	690	310	450	680	54	170	1020
1964	5230	880	910	280	540	800	71	196	1100
1965	5200	1050	830	260	550	790	49	170	1410
1966	5460	1120	890	255	600	920	50	190	1510
1967	5610	1020	880	240	590	880	52	165	1750
1968	6060	960	950	190	750	1020	48	230	1970
1969	6900	900	1020	205	830	1330	155	225	2370
1970	8330								
%Change 1955-69	166.4	15.[illegible]	82.1	-4.7	3[illegible]	33[illegible]	10[illegible]	[illegible]	[illegible]
%Change 1962-69	52.3	12.[illegible]	54.5	-2.4	92.[illegible]	141.[illegible]	[illegible]	81.7	144.3
%Change 1965-69	[illegible]	-14.3	23.0	-21.3	50.9	[illegible]	216.3	41.8	68.1

U.S. TRADE BALANCE, BY CATEGORY (SITC Classifications)
From U.S. to EFTA (Total)

TABLE A - 6

Year	SITC 0-9	SITC 0+1	SITC 2+4	SITC 3	SITC 5	SITC 6+8	SITC 67	SITC 68	SITC 7
1955	1680	440	255	115	96	295	140	43	255
1960	2430	570	370	61	190	510	105	155	540
1961	2130	510	310	58	175	405	26	93	500
1962	2090	560	235	52	185	385	21	80	530
1963	2210	520	275	61	205	445	19	77	530
1964	2760	580	300	54	255	660	53	98	680
1965	2770	520	300	61	265	650	31	115	870
1966	2970	660	265	58	265	700	29	97	920
1967	3260	580	280	120	270	650	31	75	1100
1968	3740	510	310	60	345	740	36	95	1260
1969	3860	510	320	50	315	870	66	170	1340
1970	4300								
%Change 1955-69	129.8	15.9	25.5	-56.5	228.1	194.9	-52.9	295.3	425.5
%Change 1962-69	84.7	-8.9	36.2	-3.9	70.3	126.0	214.3	112.5	152.8
%Change 1965-69	39.4	-1.9	6.7	18.0	18.9	33.8	112.9	47.8	54.0

U.S. [illegible] BY CATEGORY ([illegible])
[illegible] (Million [illegible])

PART A - 7

Year	[illegible] 0-20	[illegible] 0-1	[illegible] 2+4	[illegible] 3	[illegible]	[illegible] 6+8	[illegible] 9-7	[illegible]	[illegible] 7
1955	1000	355	160	50	57	165	37	[illegible]	110
1960	1060	405	240	26	115	225	40	135	270
1961	1100	315	185	25	[illegible]	230	9	77	225
1962	1110	355	140	22	[illegible]	210	6	[illegible]	225
1963	1010	370	150	24	115	245	8	[illegible]	270
1964	1500	375	160	21	150	415	35	90	325
1965	1600	335	155	20	160	405	20	93	425
1966	1750	425	140	27	170	430	30	96	500
1967	1970	325	140	30	170	320	23	54	[illegible]
1968	2240	370	150	31	195	420	24	76	[illegible]
1969	2380	310	170	25	170	520	40	125	[illegible]
1970	2400								
[illegible] 1955-60	100.0	4.0	-10.5	-[illegible]	11.7	21.1	-[illegible]	[illegible]	30.7
[illegible] 1960-65	105.4	-1.0	31.4	13.6	[illegible]	140.6	51.2	[illegible]	41.0
[illegible] 1965-70	10.7	-4.5	8.7	-13.8	12.5	30.4	100.0	[illegible]	55.8

U.S. TRADE BALANCE, BY CATEGORY (SITC Classifications)
From U.S. to Japan

TABLE A - 8

Year	SITC 0-9	SITC 0+1	SITC 2+4	SITC 3	SITC 5	SITC 6+8	SITC 67	SITC 68	SITC 7
1955	680	170	280	53	41	24	7	2	70
1960	1440	110	660	130	130	93	22	34	200
1961	1830	160	830	145	155	145	40	49	300
1962	1570	200	495	140	130	90	16	15	345
1963	1840	300	670	140	165	110	9	17	315
1964	2000	370	720	140	195	135	7	24	330
1965	2070	510	670	140	150	155	4	27	415
1966	2350	530	810	145	180	210	4	47	440
1967	2670	485	940	210	230	270	9	65	500
1968	2930	520	960	225	250	290	5	47	640
1969	3460	600	960	320	305	420	7	100	810
1970	4610								
%Change 1955-69	408.9	252.9	242.9	503.8	643.9	1650	0	4900	1057
%Change 1962-69	120.4	200.0	93.9	128.6	134.6	366.7	-56.3	666.7	134.8
%Change 1965-69	67.1	17.6	43.3	128.6	103.3	171.0	75.0	370.4	95.2

U.S. TRADE BALANCE, BY CATEGORY (SITC Classifications)
From World to U.S.

TABLE B - 1

Year	SITC 0-2	SITC 0+1	SITC 2+4	SITC 3	SITC 5	SITC 6+8	SITC 67	SITC 68	SITC 7
1955	11390	3120	2370	1170	335	3340	160	1010	510
1960	14940	3410	3070	1630	450	4530	455	790	1660
1961	14500	3400	2770	1710	445	4480	435	850	1600
1962	15030	3530	2960	1770	470	5190	530	970	1860
1963	14570	3730	2990	1770	510	5550	680	990	2010
1964	15370	3900	3010	1950	560	6070	850	1060	2530
1965	20190	3880	3140	2100	690	7650	1300	1310	2820
1966	24440	4360	3210	2240	850	8240	1350	1450	3010
1967	26140	4510	3290	2250	960	9150	1400	1710	3100
1968	32040	5000	3280	2500	1040	11520	2070	1940	3390
1969	35010	5040	3400	2640	1130	12220	1910	1620	10270
1970	38010								
%Change 1958-69	210.0	61.5	21.6	142.7	237.3	215.2	1031	60.4	1212.7
%Change 1962-69	121.7	42.7	17.2	60.5	133.0	133.5	241.5	67.0	458.0
%Change 1965-69	60.0	29.9	11.1	35.2	66.2	59.7	30.8	23.9	212.0

U.S. TRADE BALANCE, BY CATEGORY (SITC Classifications)
From Developing Countries to U.S.

TABLE 3 - 2

Year	SITC 0-9	SITC 0+1	SITC 2+4	SITC 3	SITC 5	SITC 6+8	SITC 67	SITC 68	SITC 7
1955	5540	2350	1370	1110	46	660	2	443	4
1960	5960	2330	1340	1470	78	700	14	305	14
1961	5710	2160	1350	1470	64	740	24	320	23
1962	5800	2180	1200	1440	67	870	11	365	21
1963	5930	2310	1100	1440	65	990	25	375	20
1964	6370	2400	1130	1560	79	1140	37	400	29
1965	6760	2360	1200	1670	91	1350	30	460	55
1966	7420	2530	1250	1760	120	1620	36	580	105
1967	7550	2610	1150	1660	120	1750	43	560	145
1968	8520	2910	1110	1830	115	2280	60	580	255
1969	9230	2810	1320	1970	115	2590	55	515	395
1970	10010								
%Change 1955-69	66.6	19.6	-3.7	77.5	150.0	292.4	2650	16.3	9525
%Change 1962-69	59.1	28.9	10.0	36.8	71.6	197.7	400.0	41.1	1733
%Change 1965-69	36.5	19.1	10.0	18.0	26.4	91.9	83.3	12.0	600.0

U.S. TRADE BALANCE, BY CATEGORY (ITEM CLASSIFICATION)
From Canada to U.S.

TABLE 1 - 3

Year	[illegible] 0-9	[illegible] 0+1	[illegible] 2+4	[illegible] 3	[illegible] 5	[illegible] 6	[illegible] 7	[illegible] 8	[illegible] 7
1955	2650	300	910	56	140	1000	44	320	150
1960	3140	340	1150	145	125	1120	65	355	255
1961	3100	355	1040	220	125	1120	60	300	285
1962	2510	345	1130	315	135	1100	75	365	315
1963	3650	345	1150	315	140	1260	98	370	325
1964	4120	365	1320	370	145	1320	125	300	600
1965	4170	450	1310	400	175	1330	145	450	910
1966	5090	465	1350	450	225	1320	150	520	1130
1967	6200	435	1300	540	240	1320	150	500	2410
1968	8520	500	1410	620	270	2110	245	710	3320
1969	9700	570	1450	730	300	2310	215	650	4050
1970	10000								
%Change 1955-69	270.0	90.0	91.2	1304	114.2	102.8	388.7	103.1	2733
%Change 1960-69	172.2	65.2	44.0	131.7	102.2	85.7	176.7	77.1	1174
%Change 1965-69	105.9	36.7	31.0	82.5	62.2	44.4	47.7	41.3	574.7

U.S. TRADE BALANCE, BY CATEGORY (ITC Classifications)
From Western Europe(Total) to U.S.

TABLE B - 4

Year	SITC 0-9	SITC 0+1	SITC 2+4	SITC 3	SITC 5	SITC 6+8	SITC 67	SITC 68	SITC 7
1955	2380	385	290	5	130	1210	100	215	335
1960	4130	510	270	8	210	1850	295	195	1230
1961	4030	560	270	13	215	1840	270	195	1070
1962	4500	590	275	10	240	2070	290	210	1230
1963	4710	630	280	14	250	2160	325	205	1300
1964	5180	640	300	7	285	2370	355	210	1510
1965	6190	700	310	12	335	2910	590	275	1840
1966	7490	850	325	26	400	3270	550	390	2530
1967	7880	940	290	47	385	3460	630	410	2660
1968	9910	1010	315	100	485	4380	920	530	3510
1969	10170	1010	270	130	495	4370	760	325	3780
1970	11150								
%Change 1955-69	327.3	162.3	-6.9	2500	280.8	261.2	660.0	51.2	1028
%Change 1967-69	126.0	71.2	-1.0	1200	106.3	111.1	162.1	54.0	207.3
%Change 1965-69	64.3	44.3	-12.9	983.3	47.8	50.2	28.8	18.2	105.4

[illegible] (illegible)
[illegible] Venezuela [illegible] U.S.

TABLE [illegible] - 5

Year	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1955	1110	135	110	4	[illegible]	990	73	110	173
1956	2040	165	105	6	145	1100	930	91	930
1957	2330	175	110	10	150	1030	815	93	190
1958	2450	175	110	7	165	1010	830	100	790
1959	2560	195	105	11	165	1040	840	90	910
1960	2950	190	130	6	175	1150	830	95	970
1961	3470	205	150	11	205	1700	445	125	1140
1962	4100	250	125	10	250	1770	830	205	1540
1963	4400	300	130	33	340	2040	475	220	1680
1964	5300	305	140	61	310	2620	755	215	[illegible]
1965	5910	315	115	100	305	3550	510	185	2510
1966	6630								
[illegible] 1955-60	413.8	133.3	15.0	2400	241.6	992.3	667.1	31.0	1371
[illegible] 1960-66	143.3	80.0	4.5	1300	90.6	110.7	154.5	45.0	334.7
[illegible] 1955-66	84.3	53.7	-11.5	800.4	40.2	50.0	85.0	14.0	120.2

U.S. TRADE BALANCE, BY CATEGORY (SITC Classifications)
From EFTA (Total) to U.S.

TABLE B - 6

Year	SITC 0-9	SITC 0+1	SITC 2+4	SITC 3	SITC 5	SITC 6+8	SITC 67	SITC 68	SITC 7
1955	1020	160	125	0	39	500	26	85	165
1960	1610	205	115	0	58	670	61	84	515
1961	1510	230	115	1	63	680	49	82	375
1962	1720	250	120	3	70	750	67	97	470
1963	1800	260	115	3	77	820	84	100	485
1964	1940	270	125	0	92	890	82	110	520
1965	2880	315	135	1	105	1050	135	125	680
1966	2900	390	135	4	125	1220	150	160	960
1967	2850	400	110	9	115	1210	155	165	960
1968	3450	470	120	23	150	1470	210	225	1180
1969	3480	460	95	18	160	1480	180	155	1210
1970	3730								
%Change 1955-69	241.2	187.5	-24.0	1800	310.3	196.0	592.3	82.4	633.3
%Change 1962-69	102.3	84.0	-20.8	500	128.6	97.3	168.7	59.8	157.4
%Change 1965-69	20.8	46.0	-29.6	1700	52.4	41.0	33.3	24.0	77.9

U.S. [illegible] BALANCE, BY CATEGORY (SITC Classifications)
From [illegible] (United Kingdom) to U.S.

TABLE 3 - 7

Year	[illegible] 0-9	[illegible] 0+1	[illegible] 2+4	[illegible] 3	[illegible] 5	[illegible] 6+8	[illegible] 6+7	[illegible] 8	[illegible] 7
1955	570	57	46	0	21	285	10	44	120
1960	1000	125	30	0	30	370	30	41	305
1961	900	140	40	1	32	370	27	38	270
1962	1020	150	40	2	37	400	39	33	340
1963	1070	155	42	3	37	455	52	38	335
1964	1140	165	38	0	47	470	42	32	360
1965	1400	190	40	1	52	600	38	49	470
1966	1750	220	35	4	64	690	38	82	590
1967	1600	225	30	9	59	600	95	82	620
1968	2110	290	44	23	72	960	140	120	750
1969	2000	350	32	17	70	770	130	83	790
1970	2210								
%Change 1955-69	250.6	187.4	-30.4	1700	233.3	205.3	1100	88.6	558.3
%Change 1962-69	103.0	66.7	-20.0	1750	59.0	117.5	207.7	151.5	132.4
%Change 1965-69	48.6	31.6	-20.0	1600	34.6	45.0	36.4	69.4	68.1

U.S. TRADE BALANCE, BY CATEGORY (SITC Classifications)
From Japan to U.S.

TABLE B - 8

Year	SITC 0-9	SITC 0+1	SITC 2+4	SITC 3	SITC 5	SITC 6+8	SITC 67	SITC 68	SITC 7
1955	455	46	56	0	7	325	13	11	19
1960	1110	79	43	5	17	800	75	10	160
1961	1070	88	46	6	22	720	70	11	195
1962	1410	105	50	3	29	980	135	12	240
1963	1520	93	42	2	34	1070	220	15	285
1964	1870	105	40	2	39	1290	305	20	380
1965	2510	98	59	3	46	1710	510	47	575
1966	3010	135	51	3	73	1910	550	53	820
1967	3050	105	29	1	68	1960	540	41	860
1968	4130	125	34	0	88	2580	810	54	1290
1969	5020	125	35	5	130	2850	730	59	1830
1970	6020								
%Change 1955-69	1003	171.7	-37.5	500	1757	776.9	5515	436.4	9532
%Change 1968-69	256.0	19.0	-30.0	66.7	348.3	190.8	440.8	391.7	662.5
%Change 1965-69	100.0	27.6	-40.7	66.7	182.6	66.7	43.1	25.5	218.3

U.S. TRADE BALANCES, BY CATEGORY (SITC Classifications)
[illegible] MILLIONS 1 [illegible]
[illegible] U.S. to World

TABLE C - 1

Year	SITC 0-9	SITC 0+1	SITC 2+4	SITC 3	SITC 5	SITC +6	SITC 7	SITC 8	SITC 9
1955	4910	-1020	-1060	-40	775	-160	+516	-255	4050
1960	5970	-260	+10	-830	1350	-450	+195	-255	5350
1961	6210	+20	+120	-830	1375	-550	+65	-300	5770
1962	5500	+110	-440	-880	1325	-1300	-60	-560	6200
1963	6600	+370	-60	-980	1430	-1170	-170	-565	6260
1964	8010	+740	+370	-1030	1510	-1310	-180	-550	6830
1965	6300	+410	+130	-1150	1700	-2730	-170	-560	6730
1966	5360	+830	+170	-1260	1510	-3310	-730	-1050	6110
1967	5080	+200	+640	-1150	1940	-3760	-840	-1160	6470
1968	2170	-410	+430	-1500	2150	-5620	-1050	-1030	5070
1969	2150	-500	+300	-1710	2350	-5200	-840	-710	4130
1970	3620								
Change 1955-70	-1300	+430	+1450	-1670	+1445	-5040	-1356	-5	+1170
Change 1960-70	-2370	-740	+830	-740	+255	-4900	-730	-300	-70
Change 1965-70	-4150	-1030	+300	-560	+530	-2470	-170	0	-600

U.S. TRADE BALANCE, BY CATEGORY (SITC Classifications)
SURPLUS OF EXPORTS OVER IMPORTS
From U.S. to Developing Countries

TABLE C - 2

Year	SITC 0-9	SITC 0+1	SITC 2+4	SITC 3	SITC 5	SITC 6+8	SITC 67	SITC 68	SITC 7
1955	+220	-1700	-1080	-900	+474	+570	+228	-414	+2006
1960	+1130	-980	-830	-1260	+552	+550	+236	-252	+2426
1961	+1540	-820	-740	-1300	+596	+520	+216	-250	+2567
1962	+1690	-770	-680	-1260	+643	+460	+244	-260	+2639
1963	+2040	-720	-550	-1255	+645	+410	+275	-280	+2650
1964	+2500	-620	-460	-1375	+751	+410	+298	-295	+2961
1965	+2160	-730	-460	-1470	+759	+230	+270	-325	+3175
1966	+2570	-590	-570	-1535	+890	+60	+209	-425	+3425
1967	+2300	-720	-360	-1430	+940	-90	+212	-445	+3525
1968	+2200	-1060	-310	-1600	+1095	-440	+240	-420	+3945
1969	+1900	-1200	-540	-1730	+1025	-540	+320	-365	+4055
1970	+2850								
Change 1955-69	+1680	+500	+540	-830	+551	-1110	+92	+49	+2049
Change 1962-69	+210	-430	+140	-470	+382	-1000	+76	-105	+1416
Change 1965-69	-260	-470	-80	-260	+276	-770	+50	-40	+880

U.S. TRADE BALANCE, BY CATEGORY (SITC Classifications)
SURPLUS OF EXPORTS OVER IMPORTS
From U.S. to Canada

TABLE C - 3

Year	SITC 0-9	SITC 0+1	SITC 2+4	SITC 3	SITC 5	SITC 6+8	SITC 7	SITC 8	SITC 9
1955	+690	-95	-655	+234	+90	-260	+121	-297	+1130
1960	+600	-20	-825	+45	+150	-150	+95	-238	+1225
1961	+570	0	-705	-55	+140	-190	+55	-266	+1115
1962	+440	+30	-775	-155	+155	-250	+35	-322	+1105
1963	+530	+100	-775	-135	+140	-320	+17	-310	+1305
1964	+710	+65	-770	-190	+190	-290	+40	-323	+1470
1965	+800	-15	-795	-175	+185	-330	+60	-350	+1800
1966	+740	-5	-905	-215	+185	-250	+45	-420	+1950
1967	+270	-15	-905	-295	+170	-300	+40	-475	+1530
1968	-550	-40	-1175	-370	+190	-560	-55	-590	+1300
1969	-850	-40	-1160	-405	+210	-330	+75	-605	+940
1970	-2110								
Change 1955-69	-1530	+55	-505	-710	+120	-70	-46	-30	-190
Change 1960-69	-1310	-70	-385	-330	+55	-90	+40	-352	-355
Change 1965-69	-1740	-25	-365	-300	+15	-100	+15	-205	-860

U.S. TRADE BALANCE, BY CATEGORY (SITC Classifications)
SURPLUS OF EXPORTS OVER IMPORTS
From U.S. to Western Europe (Total)

TABLE C - 4

Year	SITC 0-9	SITC 0+1	SITC 2+4	SITC 3	SITC 5	SITC 6+8	SITC 67	SITC 68	SITC 7
1955	+2700	+635	+640	+350	+155	-570	+130	-55	+405
1960	+2930	+720	+1200	+267	+400	-740	-100	+185	+270
1961	+3080	+930	+1000	+247	+405	-810	-176	+85	+490
1962	+3050	+1010	+755	+280	+410	-1060	-207	+30	+500
1963	+3390	+980	+810	+396	+440	-940	-237	+50	+520
1964	+3910	+1040	+1070	+368	+565	-780	-200	+90	+560
1965	+2950	+1150	+1000	+353	+545	-1340	-480	+20	+800
1966	+2270	+1250	+1015	+324	+530	-1510	-459	-95	+330
1967	+2180	+850	+1050	+348	+545	-1800	-536	-160	+610
1968	+1070	+500	+1135	+195	+695	-2490	-822	-205	+150
1969	+2020	+490	+1260	+165	+745	-1990	-485	+130	+450
1970	+3120								
Change 1955-69	-480	-145	+620	-185	+590	-1220	-615	+185	+45
Change 1962-69	-1030	-520	+505	-115	+335	-930	-278	+100	-50
Change 1965-69	-930	-660	+260	-188	+200	-650	-5	+110	-350

[illegible] TRADE BALANCE, BY CATEGORY (SITC Classifications)
[illegible] OF [illegible] (CUSTOMS [illegible])
From U.K. to European Economic Community

TABLE C - 5

YEAR	[illegible] 0+1	[illegible] 2+4	[illegible] 3	[illegible] 5	[illegible] 6+8	[illegible] 7	[illegible]	[illegible] 9
1955	+1430	+[illegible]	+460	+211	+[illegible]	-245	+1	+5	+195
1960	+1[illegible]	+[illegible]	+[illegible]	+1[illegible]	+[illegible]	-560	-15[illegible]	+1[illegible]	+[illegible]
1961	+1[illegible]	+[illegible]	+[illegible]	+1[illegible]	+[illegible]	-[illegible]	-1[illegible]	+[illegible]	+1[illegible]
1962	+[illegible]	+[illegible]	+550	+[illegible]	+[illegible]	-660	-17[illegible]	+45	+[illegible]
1963	+[illegible]	+[illegible]	+[illegible]	+[illegible]	+[illegible]	-560	-1[illegible]	+[illegible]	+210
1964	+[illegible]	+[illegible]	+[illegible]	+[illegible]	+[illegible]	-560	-1[illegible]	+111	+1[illegible]
1965	+1[illegible]	+[illegible]	+[illegible]	+[illegible]	+[illegible]	-910	-[illegible]	+45	+[illegible]
1966	+1[illegible]	+[illegible]	+555	+[illegible]	+[illegible]	-[illegible]	-[illegible]	-15	-30
1967	+1[illegible]	+[illegible]	+[illegible]	+[illegible]	+[illegible]	-1[illegible]	-[illegible]	-[illegible]	+100
1968	+[illegible]	+[illegible]	+610	+1[illegible]	+[illegible]	-1[illegible]	-[illegible]	-[illegible]	-510
1969	+[illegible]	+[illegible]	+1005	+1[illegible]	+[illegible]	-1[illegible]	-[illegible]	+1[illegible]	-1[illegible]
1970	+1[illegible]								
Change 1955-60	-[illegible]	+31[illegible]	+[illegible]	-1[illegible]	+[illegible]	-[illegible]	-[illegible]	+1[illegible]	-235
Change 1960-69	-11[illegible]	-30	+455	-[illegible]	+[illegible]	-[illegible]	-[illegible]	+[illegible]	-360
Change 1965-69	-[illegible]	-[illegible]	+[illegible]	-1[illegible]	+1[illegible]	-310	-9	+[illegible]	-410

U.S. TRADE BALANCE, BY CATEGORY (SITC Classifications)
SURPLUS OF EXPORTS OVER IMPORTS
From U.S. to EFTA (Total)

TABLE C - 6

Year	SITC 0-9	SITC 0+1	SITC 2+4	SITC 3	SITC 5	SITC 6+8	SITC 67	SITC 68	SITC 7
1955	+660	+280	+130	+115	+57	-205	+114	-42	+90
1960	+820	+365	+255	+61	+132	-160	+44	+71	+85
1961	+620	+280	+195	+57	+112	-275	-23	+11	+135
1962	+370	+310	+115	+49	+115	-365	-46	-17	+60
1963	+410	+260	+160	+58	+128	-375	-65	-23	+45
1964	+820	+310	+175	+54	+163	-230	-[illegible]	-12	+160
1965	+110	+205	+165	+60	+160	-400	-104	-10	+190
1966	+70	+270	+130	+54	+140	-520	-121	-63	-40
1967	+410	+180	+170	+111	+155	-560	-124	-90	+140
1968	+290	+40	+190	+37	+195	-730	-174	-130	+80
1969	+380	+50	+225	+32	+155	-610	-114	+15	+130
1970	+570								
Change 1955-69	-280	-230	+95	-83	+98	-405	-228	+57	+40
Change 1962-69	+10	-260	+110	-17	+40	-245	-68	+32	+70
Change 1965-69	+270	-155	+60	-28	-5	-210	-10	+25	-60

U.S. TRADE BALANCE, BY CV CODE (SITC classifications)
SURPLUS OF EXPORTS OVER IMPORTS
From U.S. to EFTA (United Kingdom)

TABLE 6 - 7

Year	SITC 0-9	SITC 0+1	SITC 2+4	SITC 3	SITC 5	SITC 6+8	SITC 7	SITC 68	SITC 7
1955	+420	+210	+144	+63	+36	-120	+27	-16	-10
1960	+460	+200	+102	+26	+85	-45	+24	+84	-135
1961	+200	+205	+145	+24	+44	-150	-10	+30	-35
1962	+90	+205	+100	+20	+61	-190	-33	+33	-105
1963	+140	+195	+102	+21	+72	-210	-49	+22	-65
1964	+440	+210	+112	+21	+103	-15	-6	+46	+20
1965	+220	+145	+115	+20	+105	-195	-42	+44	+5
1966	0	+205	+105	+24	+106	-270	-72	-6	-100
1967	+200	+160	+110	+21	+111	-300	-73	-30	-20
1968	+130	+50	+106	+8	+123	-440	-116	-46	-100
1969	+200	+70	+138	+8	+110	-350	-70	+42	-50
1970	+220								
Change 1955-60	-320	-145	-6	-75	+74	-230	-127	+52	-40
Change 1960-65	+110	-135	+32	-12	+40	-140	-42	+9	+35
Change 1965-70	-20	-75	+23	-20	+2	-155	-12	-2	-55

U.S. TRADE BALANCE, BY CATEGORY (SITC Classifications)
SURPLUS OF EXPORTS OVER IMPORTS
From U.S. to Japan

TABLE C - 8

Year	SITC 0-9	SITC 0+1	SITC 2+4	SITC 3	SITC 5	SITC 6+8	SITC 67	SITC 68	SITC 7
1955	+125	+124	+224	+53	+34	-301	-6	-9	+51
1960	+330	+31	+617	+125	+113	-707	-53	+24	+40
1961	+760	+72	+784	+139	+133	-575	-30	+38	+105
1962	+500	+95	+445	+137	+101	-690	-119	+3	+105
1963	+320	+207	+628	+138	+131	-960	-211	+2	+30
1964	+130	+265	+680	+138	+156	-1155	-298	+4	-50
1965	-440	+412	+611	+137	+104	-1555	-506	-20	-160
1966	-660	+395	+759	+142	+107	-1700	-546	-6	-280
1967	-380	+380	+911	+209	+162	-1690	-531	-24	-360
1968	-1200	+395	+926	+225	+182	-2290	-805	-7	-490
1969	-1560	+475	+935	+315	+175	-2430	-723	+41	-1020
1970	-1410								
Change 1955-69	-1685	+351	+701	+262	+141	-2129	-717	+50	-1071
Change 1960-69	-2060	+380	+480	+170	+74	-1740	-604	+38	-1125
Change 1965-69	-1120	+63	+314	+178	+71	-875	-217	+61	-860

APPENDIX D: TARRIFF AVERAGES BY SITC GROUP

All Tables in this appendix were derived from statistics provided in The Kennedy Round: Estimated Effects on Tarriff Barriers, UNCTAD Doc. TD/6/Rev. 1 (1968).

In all cases, a weighting system was used by the UNCTAD in compiling "average tarriff figures" represented in the Tables. In the study, oriented towards the effects of the Kennedy Round tarriff reductions upon the exports of the less developed countries, the combined imports of all OECD (Organization for Economic Cooperation and Development) countries in 1965 were used as weighting bases. Hence, tarriff figures represented may not accurately reflect the absolutevalues of average tarriffs facing the United States or other areas considered, but percentage reductions are likely to be closer to actual reductions relative to countries considered.[112]

In addition, a sampling system was used by the compilers of the tarriff figures here listed. In categories with twenty or more sample commodities used as weights, the results listed are considered to be precise. In other categories, involving less than twenty items in the sample, results are not precise.[113]

Categories are defined in the Tables, according to SITC groupings, and are identical with those considered in Appendices A, B, and C.

The IPR column in all tables represents reductions in the "implicit price relative", which is defined as "100 plus the tarriff rate, where 100 represents the c.i.f. duty-free price.Thus, the reductions in the IPRs represent the change in the relative duty-paid prices."[114]

A single asterisk (*) in all tables represents the rate applicable if the American Selling Price would not have been abolished. Two asterisks represents the rate in the category applicable upon extension of the Long Term Cotton Textiles Arrangement (LACTA). Three asterisks represents the rate applicable if both of the conditions listed here apply.[115]

Tables are at various pages.[116]

112. The Kennedy Round: Estimated Effects on Tarriff Barriers, UNCTAD Doc. TD/6/Rev. 1 (1968),pp.11 and 44.
113. Ibid, p. 44.
114. Ibid, p. 45, but see also p. 59.
115. Ibid, p. 59.
116. Table D-1 derived from p. 61; Table D-2 derived from p.64; Table D-3 derived from p. 67; Table D-4 derived from p.62; and, Table D-5 derived from p. 63.

TARRIFF AVERAGES BY SITC GROUP
United Kingdom(mf.n.)

TABLE D-2

SITC	Items in Sample	Description	Average Tarriff Rates Pre-KR %age	Post-KR %age	%age Reduc. in KR	%age Reduc. in IPR
0	84	Foodstuffs	n.a.	n.a.	n.a.	n.a.
1	10	Beverages and Tobacco	3.2	3.1	3	0.1
2	80	Crude Materials	3.2	2.0	37	1.1
3	56	Mineral Fuels	0.4	0.2	50	0.2
4	6	Oils and Fats	10.0	10.0	0	0
5	32	Chemicals*	17.9	8.2 (12.7)	55 (29)	8.3 (4.4)
6	104	Semi-manufactures and manufactures by materials	13.0	9.4	27	3.1
67	23	Iron and Steel	13.5	10.8	20	2.4
68	23	Non-ferrous	5.8	3.7	37	2.0
7	96	Machinery and Transport	17.0	9.7	43	6.2
8	36	Miscellaneous manufactures*	22.8	15.2 (15.5)	33 (32)	6.1 (5.2)

TARIFF AVERAGES BY SITC GROUP
Japan

TABLE D-3

SITC	Items in Sample	Description	Average Tariff Pre-MTN Rate	Average Tariff Post-MTN Rate	Tariff Reduc. in %	Tariff Reduc. in IPA
0	94	Foodstuffs	n.a	n.a.	n.a.	n.a.
1	10	Beverages and Tobacco	209.7	208.2	1	0.5
2	80	Crude Materials	8.5	8.0	22	0.5
3	56	Mineral Fuels	11.5	11.4	2	0.2
4	6	Oils and Fats	12.2	12.3	1	1.4
5	32	Chemicals	12.2	10.9	12	4.5
6	104	Semi-manufactures and manufactures by material	15.2	9.8	36	5.2
62	23	Iron and Steel	14.5	8.1	44	5.6
68	22	Non-ferrous	13.4	8.4	30	3.5
7	96	Machinery and Transport	12.7	11.3	43	7.0
8	26	Miscellaneous manufactures	21.0	13.1	37	6.[illegible]

TARRIFF AVERAGES BY SITC GROUP
United States (f.o.b. basis)

TABLE D-4

SITC	Items in Sample	Description	Average Tarriff Rates Pre-KR %age	Post-KR %age	%age Reduc. in KR	%age Reduc. in IPR
0	84	Foodstuffs	n.a.	n.a.	n.a.	n.a.
1	10	Beverages and Tobacco	33.4	30.9	8	1.9
2	80	Crude Materials	5.0	3.6	29	1.4
3	56	Mineral Fuels	3.7	3.7	0	0
4	6	Oils and Fats	12.8	14.9	20	3.2
5	32	Chemicals*	19.4	9.6 (9.7)	51 (50)	8.2
6	104	Semi-manufactures and manufactures by material**	13.1	8.8 (9.0)	33 (31)	3.8 (3.6)
67	23	Iron and Steel	7.9	5.9	25	1.8
68	23	Non-Ferrous	7.7	4.3	44	3.1
7	96	Machinery and Transport	11.2	5.9	47	4.7
8	36	Miscellaneous manufactures***	24.2	17.6 (17.7) (17.9)	27 (27) (26)	5.3 (5.2) (5.1)

TARIFF AVERAGES BY SITC TRADE
National Status (c.i.f. basis, estimated)

TABLE B-5

SITC	Item in Sample	Description	Average Tariff Rates Pre-ITO Rates	Post-ITO Rates	Tariff Reduc. in ITO	Tariff Reduc. in ITO
0	94	Foodstuffs	n.a.	n.a.	n.a.	n.a.
1	10	Beverages and Tobacco	31.0	29.6	5	1.8
2	90	Crude Materials	4.5	3.3	29	1.2
3	56	Mineral Fuels	3.3	3.3	0	0
4	6	Oils and Fats	17.9	14.3	20	3.1
5	37	Chemicals*	17.9	9.2 (9.2)	51 (50)	7.7 (7.4)
6	104	Semi-manufactures and manufactures by material**	12.0	8.0 (8.2)	33 (31)	3.6 (3.3)
67	23	Iron and Steel	7.0	5.2	25	1.7
68	23	Non-ferrous	7.4	4.2	44	3.0
7	96	Machinery and Transport	10.2	5.4	47	4.4
8	36	Miscellaneous manufactures**	22.5	16.4 (16.5) (16.7)	27 (27) (26)	6.0 (6.3) (6.7)

TARRIFF AVERAGES BY SITC GROUP
European Economic Community Common Exxernal Tarriff

TABLE D-1

SITC	Items in Sample	Description	Average Tarriff Rates Pre-KR %age	Post-KR %age	%age Reduc. in KR	%age Reduc. in IPR
0	84	Foodstuffs	n.a.	n.a.	n.a.	n.a.
1	11	Beverages and Tobacco	64.1	48.4	25	9.6
2	80	Crude Materials	1.8	1.0	42	0.7
3	56	Mineral Fuels	3.9	2.0	50	1.9
4	6	Oils and Fats	9.8	9.8	0	0
5	31	Chemicals*	13.3	7.3 (10.6)	46 (20)	5.3 (2.4)
6	104	Semi-manufactures and manufactures by material**	10.8	8.0 (8.2)	26 (25)	2.6 (2.4)
67	23	Iron and Steel	8.8	6.3	28	2.3
68	23	Non-ferrous	3.9	3.4	15	0.6
7	96.	Machinery and Transport	14.2	8.5	40	5.0
8	36	Miscellaneous Manufactures***	16.5	10.2 (10.6) (11.1)	38 (36) (33)	5.4 (5.0) (4.6)

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STATEMENT OF EDWARD MULLINS, WASHINGTON, D.C.

Mr. Chairman and members of the committee, my name is Edward Mullins; I am a retired International Economist from the Federal Government where I served for more than 38 years, working largely in the field of tariffs, foreign trade and strategic and critical materials relating to National Security.

For some ten years I acted as liaison officer between the Secretary of State and the Committee on Ways and Means of the House and the Finance Committee of the Senate. For another five years I acted in the same capacity between the Department of State and the Congress. Later I participated in GATT tariff negotiation and ended my career as the Department of Defense representative on the interdepartmental Trade Agreements Committee which supervised all the negotiating teams.

During the consideration of the first Trade Agreements Act in 1934 the tariff problem was highly partisan, as illustrated by the fact that only two Republicans in the House voted for the measure. In the early debates the opposition maintained that to grant the President the authority to reduce tariffs by fifty percent for concessions from trading partners was "too much power for a good man to want and too much power for a bad man to have." These brethren must be twisting in their graves at the proposed authority requested in HR 6767, which includes authority to lower, increase and remove tariffs, and for good measure, to impose quotas on imports.

I should hope that the experience of granting the Executive authority to impose quotas on imports of petroleum products in the name of National Security would be a warning to the Congress to Stop, Look and Listen. When that question was debated nearly twenty years ago some of our "small" voices at the Pentagon claimed that for National Security we should use cheap imported oil in unlimited amounts and save our known reserves for a real emergency. These small voices were drowned out by the loud and influential voices of the oil barons. Limiting imports of petroleum is instrumental in our present fuel crisis, and has cost consumers an estimated $5 billion annually. The Congress should not give the President the authority to repeat such further disastrous errors.

It may be recalled that during the Kennedy Round of negotiations the U.S. team negotiated for important concessions for the removal of the American Selling Price on imports of chemicals, in my estimation, a sanctuary which should not have been provided in the Tariff Act of 1930. For its own reasons Congress did not remove the American Selling Price to finalize the agreement. Is this the time for the Congress to hand over to a President who seems to want to arrogate so many constitutional powers of the Congress?

To grant the President such powers as requested in the Trade Reform Act of 1973, in my opinion, would be giving him a "Gulf of Tonkin Resolution", where some subordinate in the White House, if recent history is any criterion, to declare a "Trade war" at the slightest provocation. Paraphrasing the voices of the past, HR 6767, the Trade Reform Act grants the Executive too much power for a good President to want and too much power for a bad President to have. Let's hope it remains a Bill, or undergoes major surgery.

Mr. Chairman, it would be appreciated if a "small" voice, as here represented, could be made part of the record of the Hearings on HR 6767.

[Whereupon, at 3 p.m., the hearing was adjourned, to reconvene at 10 a.m., Monday, May 21, 1973.]