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A SURVEY OF CURRENT ISSUES IN THE FIELD OF FOREIGN TRADE

There are a number of important and often interrelated issues that have arisen in the field of U.S. foreign trade policy. These issues are not academic; they affect the welfare and security of millions of Americans and the well-being of peoples in other nations which the United States' aid-and-trade programs have nurtured and assisted throughout the post-World War II era. This memorandum identifies the issues and the questions which appear to be crucial for an understanding of U.S. foreign economic policy.

STRUCTURAL CHANGES IN THE WORLD ECONOMY—1950–1970

The international economic problems facing the United States in the seventies are significantly different than the issues of the fifties and sixties. In these prior decades, the United States maintained a pre-eminent, though somewhat declining, position in international trade and finance. The economic programs of aid, trade, and foreign investment incentives pursued by this nation during that period were aimed at providing for the transfer of real resources, first to war-torn countries of Europe and Japan, and then to "developing countries" of Asia, Africa, and Latin America.

During this twenty year period, however, the United States sustained balance of payments deficits in every year but two, and its international financial position deteriorated substantially. At the same time, economic power blocs developed in Europe and elsewhere, Japan became the third most powerful industrialized economy, and the United States share of world trade declined.

In the last quarter of this century, Europe is likely to consolidate into a large economic bloc of nations, encompassing over half a billion people and with a gross national product as great, if not greater than that of the United States. If Japan maintains its traditional growth rate, it will become the foremost industrial power in the world, particularly in basic industries such as steel, heavy machinery and electronics. In a word, the United States will be facing a severe test of maintaining competitiveness in manufactured goods.

Decline in World Trade Position

Though the United States is still by far the World's largest trading nation with exports and imports aggregating over $80 billion, its position vis-a-vis major trading nations and blocs of nations has declined, as has its share of world trade. The U.S. share of world exports declined from an average of 23 percent in the 1950–1957 period to 20 percent in 1958–1964, 19 percent in 1964–1968, and 16 percent in 1969–1970.

It was natural and expected that our share of world trade would have declined during the fifties with the economic recovery and rapid growth in Europe and Japan. However, the continued deterioration in the U.S. trade position during the sixties is not a natural consequence of postwar recovery, but appears to be a reflection of fundamental structural changes in the U.S. and the world economies.

Our trade balance, another customary means of measuring competitiveness declined from an average surplus of $5.4 billion from 1960–1965 to an average of $2.5 billion from 1966–1970. Actually, if measured to exclude foreign aid-financed exports and to include the cost of insurance and freight in our imports, our trade position would show an average deficit of about $4 billion in every year since 1968.* The c.i.f. basis of measuring imports, used by over 120 nations, is a better indicator of the effects of imports on the domestic economy—production and jobs—than the f.o.b. system used by the United States and a dozen other countries. Not only are the U.S. import figures misleading but the statistics on U.S. foreign trade cannot be compared with existing production and consumption data because of noncomparable statistical classifications.

The United States economy has become service and defense oriented; consumer goods production of watches, radios, televisions, clothing, and shoes is shifting to low-wage countries abroad. In some respects the "consumer" benefits from cheaper products. Imports not only serve to provide the consumer with a wider variety of goods to choose from in terms of price, quality and service, but also serve to assuage price inflation in domestically produced products. But, intensive import competition and the emigration of U.S. firms to foreign lands does cause displacement of U.S. production and jobs.

The consumer must also consider the effect of a growing dependence of imports on price and servicing. Once imports capture a substantial share of the U.S. market, foreign producers can easily increase prices and the consumer advantage tends to diminish. Also, owners of foreign products—automobiles for example—often have difficulties in getting spare parts and adequate servicing.

While large firms, with mobility of capital and management can often adjust to import competition, by going abroad for example, the inability of small business and of the U.S. labor force to adjust to these changes is a major problem.

This is where the theory of "comparative advantage" breaks down. The theory assumes complete mobility of labor, capital and management across international boundaries; it also assumes no government interference with free market forces and flexibility of exchange rates. In reality, labor is not mobile internationally, markets are not free from government interference and exchange rates are relatively fixed. Without the underlying assumptions being correct, the theory cannot and does not serve as a useful guide to the policy makers in any country. Its real acceptance appears limited to academic circles.

*See table 2 in appendix.

Structural Changes

The rapid internationalization of production fostered by multinational firms; the transfer of technology; the consolidation of common tariff and other policies in economic power blocs; the sharp increase in agricultural production abroad stimulated by high support prices and repressive import policies; and the dramatic economic growth in Japan, and that country's drive to expand its world market share while protecting its home market—are all important structural changes in the world economy which have played a large role in the deterioration of the international economic position of the United States in the sixties and are likely to continue to do so in the seventies and eighties. Some of the more philosophical questions which these structural changes raise are:

(*1*) *What are the economic and human costs and benefits of these structural changes in the world economy?*

As a nation we have run continual deficits in our balance of payments since 1950. As a result, our short-term liabilities to foreigners have risen from $7.6 billion in December 1949 to $43.7 billion as of January 1971. Liabilities to official institutions directly convertible into U.S. gold now total $20.5 billion. Our gold stock, meanwhile, has fallen from $25 billion in 1950 to $10.7 billion in 1971.

The unemployment rate in the United States is now over 6 percent of the labor force. Imports are a contributing factor and particularly hit the semi-skilled, immobile worker in labor intensive industries.

(*2*) *What policies should the United States adopt to meet the needs of the last quarter of the twentieth century?*

In the light of all that has taken place in the world economy it is somewhat surprising that few new ideas or initiatives have been proposed which can reverse the decline in the U.S. international competitive position. For example, no concrete negotiating plans have been presented to the Congress since the end of the Kennedy Round. It would appear that the policies of the fifties and sixties on aid, trade and investment require an overall reexamination together with a reordering of priorities, to meet the needs of the seventies.

(*3*) *Does the persistent U.S. balance of payments signify that the U.S. dollar is overvalued vis-a-vis other currencies such as the yen and the mark?*

Japan's international balance of payments is strong. It has a large balance of trade surplus with the U.S. (averaging between $1–$1½ billion since 1968) and also earns considerable foreign exchange from offshore U.S. military expenses. The parity of the yen (of 360 yen to the dollar) was established on April 25, 1949, and certainly Japan's economic condition has changed dramatically since then. An upward revaluation of the yen would improve the U.S. competitive position vis-a-vis Japan.

The current monetary crisis in Europe reflects, in part, a fundamental disequilibrium in the exchange rate structure.

The German mark, twice revalued since 1958, still appears to be undervalued in relation to the dollar. The basic choice is between a revaluation of the mark (and other currencies, such as the yen) or a devaluation of the dollar. Since the dollar is still the world's key currency to finance trade and other transactions, and since all other currencies are effectively "pegged" to the dollar, a dollar devaluation could be disastrous to the world economy.

Finally, it is not sound economics to separate into distinct categories "monetary" problems from "trade" problems; the tendency of all nations to "compartmentalize" their problems is a mistake.

(4) Is the significant decline in the U.S. competitive position in many industries due to short-term or long-term causes?

This is a broad question but the answer is important. If the decline in the U.S. position, say since 1965, is due to the inflationary pressures in the economy stimulated in part by the Vietnam war, then one could reasonably expect with the cessation of hostilities a restoration of the healthy trade surpluses we had between 1960–1964. If, on the other hand, the causes are long-term and structural, the U.S. will need to take strong action on import and export fronts to restore a healthy trade surplus.

(5) Should the activities of multinational corporations be guided by national economic goals?

Multinational corporations have the ability to shift capital from country to country to take advantage of interest rate incentives, or prospective changes in exchange rates. They can also encourage countries to provide tax and other advantages for plant locations which could encourage dislocations in other countries.

The recent monetary crisis is due, in large measure, to massive shifts of short-term capital—mainly Euro dollars under control of multinational corporations and commercial banks abroad—into Germany. The press has reported that nearly $2 billion flowed into Germany in the period of a few days. The multinational corporations can shift large sums for interest rate gain, or in anticipation of currency revaluations. Such massive shifts can actually force currency revaluations, and are dangerous to international financial stability.

(6) What steps would be needed to reverse the decline in the U.S. trade position relative to those of our major trading partners?

A number of steps appear to be necessary. Some must be taken in concert with other nations. These include: (a) equitable international rules on subsidies and border tax adjustments, (b) flexible exchange rates, and (c) adoption of an "open door" policy by countries in balance of payments surplus such as Japan. Others can be taken by the United States unilaterally. These include: (a) provisions for temporary tariff or quota relief to injured industries and firms, (b) an overhaul of adjustment programs to retrain workers and place them in higher paying jobs, and (c) a much tougher negotiating posture using all the leverage that the U.S. has with respect to Europe and Japan.

(7) *Are these steps compatible with existing international obligations and the U.S. position in the world economy?*

Most of these steps outlined above are, but there is also a need to restructure existing rules and institutions to fit the changed economic conditions in the world economy.

Increased Import Competition

U.S. imports have grown from $5.1 billion in 1946 to $13.0 billion in 1958 to over $40 billion in 1970.[1]

During the sixties alone, imports more than doubled and, in many industries, have accounted for a growing share of domestic consumption. Industry and labor spokesmen have expressed concern over; this trend and fear that it is irreversible.

The Executive branch and other free trade advocates contend that the people employed in such "inefficient" industries should "adjust." But adjust to what? Can an unemployed steel, textile, shoe, or electronics worker be retrained to manufacture computers for aircraft? Or, does adjusting mean he (or she) should move abroad with U.S. corporations to work for 8 cents an hour in Korea, or 12 cents in Taiwan, as the "comparative advantage" theory would suggest. What industries are there in the U.S. which, on their own—without government support—will be viable entities in the seventies capable of employing large numbers of semi-skilled or even skilled labor? These are a few of the key questions on import problems; others appear to be:

(1) *What should the government do, if anything, to help industries, firms, and workers besieged by severe import competition?*

Article XIX of the GATT permits a country to impose import restrictions on products of industries seriously injured by increased imports, while Article XII of GATT permits the use of quotas to protect a country's balance of payments position. Thus there is sufficient flexibility on these scores for the U.S. to take action against excessive import competition.

But the U.S. "escape clause" law on providing relief to injured industries, firms, and workers is admittedly so rigid that few have qualified, except for "adjustment assistance" which many feel is a glorified name for "funeral expenses".

(2) *Should government aids to industries, firms, and workers injured by imports be any different from such aids to any injured industry, firm, or worker irrespective of the cause?*

This is a philosophical question. An unemployed steel worker hit by automation is just as unemployed as a steel worker laid off because of imports. Why should the Federal Government discriminate in the treatment of two equally-disadvantaged citizens? Furthermore, as a practical matter,

[1] U.S. imports are generally measured on an f.o.b. (freight on board) basis. Most other countries measure their imports on a c.i.f. (cost, including insurance and freight) basis which adds about 10% on the average to the f.o.b. figures.

it is difficult to segregate causes of injury in a highly competitive and fast moving economy.

(3) *What kind of education, retraining and "adjustment assistance" would be necessary to shift employment displaced by imports to more lucrative and competitive areas?*

We do not know, for example, what the employment characteristics are of those laid off because of imports, including age, location, education and earning power. Answers to these questions are necessary if intelligent policy is to be set. The Department of Labor should undertake studies to provide these answers.

(4) *What are the human and economic costs of such a program?*

The AFL–CIO estimates that 700,000 jobs have been lost to imports since 1967 while 400,000 have been gained by exports. What jobs? How do we reverse this trend?

These questions have not yet been answered by those who suggest U.S. labor should "adjust" to import competition.

Obstacles to U.S. Exports

U.S. exporters have also raised a hue and cry over foreign tariff and nontariff barriers. Since 1934, the United States has entered into numerous negotiations to reduce tariff barriers with other countries.[2] By and large we have succeeded in reducing the tariff to a secondary position as a trade barrier although for many countries, and even for some U.S. industries, the tariff still affords important protection. There also are large tariff disparities in many products. For example, the U.S. tariff on automobiles, after the Kennedy Round cuts, will be three percent ad valorem, while the Common Market and Japan will have tariffs of 11 and 17.5 percent ad valorem, respectively. The Canadian duty on automobiles is also 17.5 percent, in spite of the U.S.-Canadian Auto Agreement, which was billed as a "free trade" agreement in automobiles for the North-American market.

Nontariff Barriers

"Nontariff barriers," a term which covers a multitude of protective practices and procedures, have replaced the tariff as the principal protective device for many countries. These so-called "NTB's" vary from outright *embargoes* to the purposeful or inadvertent results of health, safety, and more recently antipollution requirements. "NTB's" are often exceedingly difficult to identify, and no one has ever attempted a major multilateral negotiation to swap off "nontariff barriers" in a tit-for-tat fashion. Yet their effects have been to hamper the growth of U.S. exports, while U.S. imports predictably rise in the face of a general lowering of tariffs.

[2] The Kennedy Round, the sixth multilateral tariff and trade negotiation, resulted in an average U.S. tariff cut of 35 percent, or 4.2 percentage points, from a level of 12 percent to a level of 7.8 percent.

(*1*) *In the light of the importance of foreign nontariff barriers to U.S. trade, how should the Congress and the Executive proceed to deal with them?*

(*2*) *What kind of negotiating authority is needed by the Executive to negotiate in this difficult area?*

Because of the Constitutional system of checks and balances, the Congress cannot negotiate with foreign nations and the Executive cannot change U.S. law by entering into a treaty or international agreement. Many NTB's are written into the statute books, so that a U.S. trade negotiator cannot "commit" the United States Government to a change in laws. However, these limitations indicate the necessity for the two branches to cooperate in the development of comprehensive rules of free and fair competition for international trade. When such potential rules are formulated, it would then be possible for the Congress to grant limited, but meaningful, authority to the Executive for negotiating these barriers.

(*3*) *In this regard, should a general statement of Congressional intent, such as the one sought by the Executive in the Trade Act of 1970, be the legal basis for negotiating NTB's?*

Probably not. A general statement of intent is an insufficient guide to any negotiation and the Congress is more likely to balk at the results than if a clear, specific authority were sought by the Executive.

(*4*) *Which NTB's are negotiable and which are considered nonnegotiable?*

This question should be studied by the Executive and the results made clear to the Congress before authority to negotiate is sought.

(*5*) *Can one deal with nontariff barriers better through multilateral negotiations or through bilateral negotiations?*

It would be extremely difficult to swap NTB's with all GATT members in one big multinational negotiation.

Perhaps individual country negotiations are more promising and the benefits could be extended to third countries only on a *quid pro quo* basis.

(*6*) *Do nontariff barriers lend themselves to "sector negotiations" such as an NTB steel, textile, or aluminum sector negotiations?*

Some NTB's will lend themselves to sector negotiations; others should be negotiated on their merit since they affect many industries and products.

(*7*) *How does one identify the trade distorting effects of various nontariff barriers?*

For example, what effects does the common agriculture policy of the Common Market, or the import licensing of Japan have on U.S. trade?

These are but a few of the difficult questions which must be resolved before the Congress and the Executive can tackle the difficult NTB problem. To date, however, answers are still lacking.

Balance of Payments Strategy

Foreign trade has not yet been affected directly by U.S. balance of payments strategy, at least so far as private transactions are concerned. (Foreign aid has been tied to U.S. exports, but the government is moving away from the tied-aid policy.) But, time may be running out to preserve trade in such a sacrosanct position. Already, the United States has imposed a rather comprehensive system of capital controls through the Interest Equalization Tax, the mandatory direct investment program, and the "voluntary" bank-lending program. Although these devices have been in effect for several years, they have not been sufficient to eliminate balance of payments deficits which reached an all-time high of $10 billion in 1970, and has been reported to be running at twice that amount during the first quarter of 1971. If free trade is supposed to give rise to the most "optimum level of efficiency" in the utilization of resources, does not the free movement of capital, particularly equity capital, tend toward the same end? The answer would seem to be yes, but for various reasons, this nation has chosen to control investments abroad rather than imports.

Investment abroad, particularly equity capital or "direct" investment ultimately earns considerable foreign exchange for the United States in the form of repatriated earnings, royalties, and management fees and related or induced exports. If the balance of payments problem of the United States were truly a short-term problem then "temporary" capital controls makes sense. But a problem that has been with us in 19 out of the past 21 years can hardly be deemed "short term" and, to that extent capital controls are self defeating in that they cut off future earning power.*

In contrast to investment, current consumption of imports is an out-of-pocket expense which brings no future rewards from a balance-of-payments standpoint. Thus, the question is raised: "Are we being consistent or rational in espousing the virtues of 'freer trade' while clamping down or attempting to clamp down, on the free movement of capital across national frontiers"?

Foreign nations, particularly in the European Common Market, have been lecturing the United States to eliminate our balance of payments deficits for years. However, judging by their vocal response to U.S. attempts to reduce our military expenditures in Europe, or to moderate the influx of imports from Europe, or to tax American tourists going to Europe, it would appear that they want us to solve our balance of payments problem in a manner calculated to serve their best interest rather than our own. Their favorite remedies are to persuade us to raise interest rates to the point of depressing our domestic economy and causing difficult unemployment problems or to control our investments in their market.

Is the proper U.S. response to this schizophrenic attitude of our European friends to our balance of payments problem, the one recently suggested by Secretary Connally—"To pull out our sixth fleet from the Mediterranean and let the Europeans arrange for their own defense"? (Quoted in the Washington Post, April 26).

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*See table 10 in appendix for balance of payments deficits.

CHANGING POWER BLOC RELATIONSHIPS

U.S. Trade Relations With the European Economic Community

The European Common Market—a full-fledged customs union with a common external tariff, no internal tariff, and an attempt at "harmonizing," fiscal, monetary, antitrust, agricultural, and other policies—poses a major challenge to U.S. foreign trade policy. The common agricultural policy of the European Economic Community has become highly protectionist and has adversely affected U.S. trade in one of the few areas where we have a comparative advantage. U.S. exports of agricultural products subject to the European variable levy system declined by 47 percent between 1966 and 1969, resulting in a loss of hundreds of millions of dollars worth of U.S. sales to that market. There was some improvement in 1970, but mainly in goods that are not subject to the variable levy.*

Also, the European system of taxation, with border tax adjustments and export rebates, constitutes a formidable obstacle to our exports and an unwarranted inducement to exports from the EEC. It is expected that the Europeans will establish a common 15 percent border tax (in addition to tariffs and other barriers) on imports from nonmember countries, and the same amount of tax rebate on exports to nonmember countries. This will provide an effectively higher level of protection for many European industries than the level existing before the Kennedy Round. There are also European government procurement restrictions and hidden administrative barriers which U.S. industry has complained about bitterly.

Foreseeing that the European Economic Community could evolve into a highly protectionist bloc and wishing to build a "partnership" between the United States and Europe by increasing their economic interdependence, the Trade Expansion Act of 1962 was proposed to break down Atlantic tariff barriers and to encourage British entry in the hope of making the Community more "outward looking".[3]

Having concluded the Kennedy Round, acclaiming it as a grand success, even our negotiators may have been shocked to discover that the U.S.-EEC economic problems after the Kennedy Round were greater than before. Industry complained that the Europeans increased their nontariff barriers as they reduced their tariffs and agricultural interests complained that the Kennedy Round did nothing to even soften the highly protectionist EEC common agricultural policy. Europeans, in turn, began to view direct investment by foreigners (mainly the United States) in basic industries with a jaundiced eye.

Our policy appears to ignore EEC protectionism while cooperating with them by discouraging U.S. investments in Europe on balance of payments grounds. In the meantime, the U.S. maintains and supports over 300,000 American troops and twice that number of dependents in Europe to protect the Europeans (and ourselves) against Soviet bloc encroachments. In 1970, defense expenditure accounted for 8.9 percent of our GNP; in France the figure was 4.7 percent, in Germany

[3] Section 211 of the Trade Expansion Act, gave the President authority to cut U.S. tariffs to zero on those commodities in which the United States and the EEC together accounted for 80 percent or more of world trade. Without British entry this provision became worthless.

*See table 6 in appendix for U.S.-EEC agricultural trade from 1965–70.

3.9 percent, Italy 2.9 percent, and in Japan 0.8 percent.* The West Europeans are doing a flourishing business of trading with the countries which we are spending billions to protect them against. The U.S. trade with Eastern Europe totaled, in both directions, $444 million in 1969; the rest of the "free world's" trade with Eastern Europe in that year totaled $16.6 billion.** There is something nonsensical in all this.

Since the Kennedy Round, threats and counterthreats have reverberated across the Atlantic on trade matters. Thus, ironic as it may seem, the Kennedy Round which sought the elimination of trade barriers, may only have served to sharpen the trend toward protectionism in both Europe and the United States.

Negotiating With the EEC

How to deal with the EEC as a negotiating entity remains a problem of major proportions. The Community must get the approval of all six nations before acting. The countries still have disparate interests and this has often hampered the ability of Community spokesmen to present a realistic proposal for the bargaining table. This was very much evident in the Kennedy Round, when the Europeans kept U.S. negotiators waiting for almost three years while they worked out a common agricultural policy which was highly restrictionist.

British Entry

If the British enter into the European Common Market, followed by other European countries such as Austria, Denmark, Sweden, Switzerland, Ireland, Norway, and Finland, the resulting bloc will create an entirely new situation for U.S. policy makers. The enlarged European Common Market, with as many as fifteen full members and spreading its tentacles of special commercial arrangements with Mediterranean countries, former Commonwealth countries, and others could radically alter the economic balance of power. Those who speculate that British entry will somehow make the EEC an "outward looking" bloc may well be engaged in wishful thinking, and the history of the EEC suggests that such speculation would be risky. If six countries can't easily agree on a realistic bargaining position, how can we expect upwards of 15 countries to do so?

How do we cope with the bargaining strength of an enlarged economic power bloc the size of all of Western Europe, which has the power to convert their dollars into gold every time we act to defend ourselves against excessive competition in labor intensive industries? These dollars are "earned" by the Europeans, in part, by U.S. military expenditures in Europe and elsewhere.

U.S. Economic Relations With Japan

Japan has shown the fastest and most sustained economic growth rate of any major country during the postwar period. This has been an economic miracle which merits the acclaim and the wonder of Western man, and is a testimony to the skills and drive of the Japanese people.[4]

[4] The Japanese economic growth rate has averaged more than 10% a year for the last ten years and its exports have grown at a rate faster than that of any other industrialized country.

*See tables 8 and 9 for defense expenditures by country.
**See table 4 for Free World trade with Eastern Europe.

At the same time, however, the Japanese economy, internally and externally, is highly controlled. Few American corporations have been allowed to set up wholly-owned subsidiaries in Japan and imports are rigidly controlled by quota and licensing arrangements as well as by bureaucratic red-tape. Thus, while Japanese exports of textiles, consumer electronic products, cameras, steel, motorcycles, and automobiles have flooded the U.S. market, American producers have been denied access to the rapidly growing Japanese market. Japan has set up wholly-owned subsidiaries and trading houses to handle their exports. Japan has been able to concentrate its efforts in the expansion of commercial markets because only 7.2 percent of its budget is spent on defense (compared to 37 percent in the U.S.) and only 0.8 percent of its GNP is defense as compared to 8.9 percent in the U.S.*

The United States for years has sought to persuade Japan to liberalize its controls over investment and imports, and the Japanese have reduced the number of import quotas but they still retain quotas on many important products and a comprehensive system of import licensing. Japan is out of character in seeking to preach the virtues of free trade to other nations.

The United States has asked Japan to restrain voluntarily its exports of woolens and man-made fiber textile and apparel products to this market. Through bilateral agreements with many European countries and Canada, Japan has restrained her exports to those markets. Because of the closing of these markets to Japanese textiles, the United States now absorbs over 50 percent of Japan's textile and apparel exports while Europe absorbs about 5 percent. The U.S. textile industry seeks relief from discriminatory arrangements, the results of which have been to channel Japanese textiles into this country—the last major market still open to them. While to some, this may appear to be an unjustified request and an aberration from our "free trade" philosophy, the fact is that we are the only importing country of any size which does not have restraints on imports of wool and man-made fiber products through bilateral agreements or through import quotas. The Europeans talk about the dangers of U.S. protectionism but they are already protected and are quite content to have the U.S. absorb the bulk of Japan's exports of textiles. The textile issue must be resolved before any meaningful negotiations on other issues or legislative initiatives can take place.

Since Japan is our second largest trading partner, and is obviously the most advanced country in Asia, there is an economic interdependence between the U.S. and Japan. The United States must depend heavily on Japan to pick up some of the economic development burdens in Southeast Asia. There may come a day when Japan will take a more active part in the mutual security arrangements in that troubled area of the world, and thus relieve the U.S. of a substantial burden. But this is far from certain.

A real economic partnership can develop between the U.S. and Japan. No longer, however, should the United States forego concrete economic opportunities for vague political goals. We must gain the same access to foreign markets as foreign countries have to ours. As one observer put it: "Unfortunately, liberalization moves have taken place at a very slow pace and have not been significant. I think we have reached the point where the alternatives are clear:

*See tables 8 and 9.

Japan needs to liberalize trade and investment or Japan will increasingly encounter such restrictions in foreign markets as Japan has erected to insulate its own market."

(1) *Can the United States afford to keep its markets open to Japanese goods, when the conditions of trade are so imbalanced?*

> The U.S. trade deficit with Japan grew from $388 million in 1965 to $1.240 billion in 1970. During this period U.S. military expenditures in Japan grew from $346 million to $669 million.

(2) *Would it be possible for the United States Government to work closely with its business and banking community in the same kind of partnership that has developed in Japan?*

> There would have to be a major change in our antitrust laws and philosophy before such "cooperation" could occur.

(3) *Is investment by American firms in the Japanese market a means of ameliorating the present economic difficulties between the two countries?*

> Joint ventures may create "entangling alliances" between U.S. corporations and Japanese corporations. But from the point of view of U.S. labor, this could compound their present difficulties.

(4) *What has been the experience of the American firms who have investments in Japan?*

(5) *Will the apparent dissatisfaction of Japanese citizens with their export-oriented economy rerve to redirect priorities in that nation toward higher living standards, and thereby relieve Japanese pressure on world markets?*

GLOBAL CHANGES IN WORLD AGRICULTURE

During the past 15 years the production of most farm products in industrial countries has increased more rapidly than consumption or use in those countries. This has led to increased "self-sufficiency" even though achieved by often high price supports and rigid import controls.

Orville Freeman, former Secretary of Agriculture, said on December 2, 1969, "The only country in the world that has tried to do anything about overproduction is the United States." Other countries, particularly in the European Common Market have increased their food and feed grain production dramatically as a result of high price supports and have dumped their surplus production on the world's market at depressed prices, while insulating their own market by the variable import levy.

United States agriculture is a growth industry; it is highly competitive in world markets and exports are a large fraction of the total volume of our output.

There seems to be a need for a careful and systematic study of the degree of protection of agriculture in all industrialized countries and the output and trade effects of existing domestic farm programs. This study could very well show that there is a better way of coordinating trade and production policies in agriculture than the present non-system.

As already mentioned, the European agricultural system is highly protectionist. The European farmers have great political power and France has insisted on the adoption of a common agricultural policy aimed at self-sufficiency as a price for European unification on industrial products. The level of price supports after "integration" is higher than the average level before "integration".

The problem of how to deal with the European agricultural policy is key to U.S. future trade policy. If, as in the past, the United States takes the position that agriculture and industrial negotiations must proceed separately—which really means we don't do very much about agriculture—then one wonders whether an NTB negotiation would be successful.

Given the ecopolitics of agriculture, it is impossible to visualize in the near future a world of unfettered agricultural production and trade. However, it may be possible to find some agreements on levels of support, import policies and production controls. If these could be achieved, U.S. agriculture would stand to benefit since we are still the most efficient producer of agricultural commodities in the world.

On the subject of the "green revolution"—the improved productivity in agriculture in developing countries—there will be less reliance on developed countries for "food aid." Developed countries will have to rely more heavily on commercial and industrial transactions, hopefully in a better international trading world.

Many farm organization spokesmen have a bifurcated view of foreign trade; they tend to be "free traders" for everybody else, but "protectionists" for agriculture. They speak against quotas for textiles, shoes, and oil but ardently support quotas on wheat, meat, and dairy products.

The actual competitive position of U.S. agriculture, though significant, is somewhat distorted by the inclusion of concessional Public Law 480 "sales" as a part of U.S. exports. These "sales" averaged between \$1–\$1.5 billion during the fifties and sixties and, for the most part, were for nonconvertible foreign currencies. It was originally part of a surplus disposal program but gradually became one of the Department of State's foreign policy instruments. Without Public Law 480, U.S. agricultural trade would be in near balance, with a small surplus for most years. Given the productivity of American agriculture this does not speak well for the world agricultural market structure.

One of the more immediate problems facing agricultural exports is the prospective adoption by Britain and others of the European variable levy system. Britain is a large agricultural importer (over \$1 billion a year from the*U.S.) and its adoption of the European system is bound to adversely affect U.S. sales to that market.

(1) Is the European common agricultural policy consistent with the GATT Agreement?

> The variable levy system of the Common Market is more protective than a quota system, and is more restrictive than the individual country protection was before the formation of the Common Market's agricultural policy. This result was made possible because the United States, during the "Dillon Round", allowed the Europeans to suspend concessions on some of their agricultural products.

(2) Is the Common Market's agricultural policy negotiable?

(3) Precisely what effect would the adoption of the variable levy system by Britain have on U.S. exports?

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*See table 5 in the appendix.

(4) What potential is there for exporting agricultural products to Eastern Europe and Communist China? What impediments are there to this trade?

(5) Should food aid be coordinated in a multinational institution rather than be part of the foreign policy instruments of the individual member nations?

NATIONAL TRADE POLICIES AND INTERNATIONAL RULES AND INSTITUTIONS

National trade policies and international rules and institutions should be under continued review to insure that they don't become outmoded.

The committee has published a study outlining how the GATT is outmoded as an instrument for insuring fairness and reciprocity in international trade.[5] Much additional work needs to be done in this area, particularly with respect to domestic unfair trade practice statutes.

Adequacy of U.S. Laws Dealing With Unfair Trade Practices and "Excessive" Import Competition

Any comprehensive review of U.S. trade policies must examine whether U.S. laws are adequate to deal with what may be termed "unfair trade practices." Is there any laxity in their administration, and are they adequate for the needs of the 70's and 80's?

There are considerable number of "unfair trade statutes" which relate to foreign commerce. The Antidumping Act of 1921, the countervailing duty statute (section 303 of the Tariff Act of 1930), sections 337 and 338 of the Tariff Act, section 252 of the Trade Expansion Act of 1962 are the more specific and prominent of these statutes, but there are others. Many of these statutes are more than 40 years old; some were established to meet particular problems which may no longer exist; the penalties in some may be so strong that administrators may feel constrained not to apply them even if the language of the statute is mandatory. Sections 337 and 338, for example, which deal with unfair methods of competition and foreign discrimination, respectively, have been used very sparingly. In fact, section 338 has never been invoked at all. The countervailing duty law was written to offset the subsidy effect of such devices as the European rebate of indirect taxes on exports. Yet, the law has not been applied in this area even though couched in mandatory terms. A case has been pending on this issue for over two years before the Treasury Department, which appears unwilling to make a decision. If the laws are not adequate or too harsh they should be changed, rather than left as "dead letters" on the statute books.

Administration of U.S. Trade Policy

Under Article I, section 8, of the Constitution, the Congress has the exclusive power to "lay and collect duties" . . . and to "regulate commerce with foreign nations." While preserving its plenary power

[5] "Staff Analysis of Certain Issues Raised By The General Agreement on Tariffs and Trade", Committee on Finance, December 19, 1970.

in this field, the Congress has from time to time delegated limited authority to the President to carry out a trade agreements program established by Congress. But, who actually is charged with administering the program?

The Departments of State, Commerce, Agriculture, Interior, and Treasury, the President's Special Trade Representative, the National Security Council, and now the President's International Economic Council all have an interest in, and responsibility for, overlapping aspects of foreign trade policy. Importer and exporter interests are often separately represented and the result may be administrative inconsistency, delay, "buck passing" and at times interagency warfare within the Executive branch. Often, one does not know precisely who is responsible for a trade policy problem. For example, the Congress established the Office of Special Trade Representative in the Trade Expansion Act of 1962 because it wanted an "independent" *negotiator* not so closely associated with the concerns and needs of foreign governments as would be the desk officers in the State Department. However, when it came to "negotiating" on the textile problem, the Secretary of Commerce, a White House aide, and subsequently a roving Ambassador-at-large were consecutively put in charge.

While the Congress itself is not vested with authority to do the actual negotiating for this government, it does have plenary authority to "regulate commerce with foreign nations." The Executive has tended to go to Congress only to implement something which they have already done. This appears to be a shortsighted approach, and there is a need for a much closer working relationship between the two branches of government *before* the policy is established.

Congressional Prerogatives and Executive Agreements

What is the binding power of an Executive agreement never approved by the Congress? The GATT is such an agreement. The Executive branch tends to view GATT as a legal obligation of the United States, while the Congress tends to view it as a mere executive agreement without the force of law. How and to what extent should such an agreement bind any nation in its dealings with foreign governments? Moreover, what about the status of an executive agreement negotiated without advance authority from Congress which tends to affect the administration, if not the whole meaning, of domestic law? The International Antidumping Code is such an agreement; its negotiation compelled the Congress to enact legislation, making it clear that the Executive branch lacked the power to change the meaning of the domestic statutes through executive agreements.[6]

There have been at least three agreements reached in recent years which have incurred the wrath of a number of Senators and Congressmen. The International Antidumping Code was the most obvious case of usurpation of congressional authority since its purpose was to dilute the force of U.S. unfair trade laws. Moreover, it was never even submitted to the Congress for its approval. The Canadian Auto-

[6] The Congress enacted Title II of Public Law 90–634 (approved on October 24, 1968) which provided, in effect, that the Code's provisions may be applied only to the extent that they (1) do not conflict with domestic law and (2) do not limit the discretion of the Tariff Commission in its injury-determination function under the Antidumping Act of 1921.

mobile Agreement and the American Selling Price Agreement were other examples.[7]

The Executive has "committed" the United States to a "generalized tariff preference" scheme aimed at helping underdeveloped countries.[8] Even though the Executive has recognized that tariff preferences require legislation, it is questionable logic to "commit" the United States to a particular plan without prior congressional review and authorization. The Executive has built up the hopes and expectations of many developing nations while the Congress has been left out of the process. What will happen to U.S. relations with these countries if the Congress rejects the tariff preference plan or substantially alters it to the detriment of low wage imports? How can the President "commit" the United States to a program never even studied by the Congress? Why did the U.S. negotiators agree to one system of generalized tariff preferences, while Western Europe and Japan agreed to a potentially far more restrictive tariff-quota preference system.

This kind of problem usually arises because the Executive branch finds itself with the Hobsonian choice of entering into such an executive agreement or being threatened with dire consequences by foreign governments who do not understand, or appreciate the division of power—the checks and balances—in our system of government. On the other hand the Congressional feeling that such "fait accomplis" are without authority and should never have been agreed to by our negotiators creates a major dilemma in the trade policy area.

SUMMARY

The world's economy has undergone rapid structural changes since 1950. The development of economic power blocs, particularly in Europe, the resurgence of Japan as the second most powerful industrial country in the free world, the movement of American corporations abroad, the persistent balance of payments deficits experienced by the United States and the consequent deterioration in its international monetary position—these are all important factors which have affected and will continue to affect U.S. foreign trade position. It would appear that these structural changes in the world economy will continue at an even faster pace in the 1970's and 1980's, and that domestic U.S. industries and labor will be challenged as never before to meet this competition.

Large American industries can generally adjust to this competition by moving abroad if necessary. The main adjustment problem is felt by American labor and those firms who cannot easily move abroad.

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[7] The United States-Canadian automobile agreement was negotiated after the Canadians subsidized exports of Canadian autos and parts to the United States through a duty remission scheme. The agreement, while providing free access to the U.S. market for Canadian autos and parts, does not provide free access to the Canadian market for U.S. autos and parts. There is an absolute embargo on U.S. used car imports into Canada and a 17.5 percent duty imposed on new car imports. The American Selling Price agreement was negotiated in the face of S. Con. Res. 100 which passed the full Senate and specifically warned the negotiators not to enter into such an agreement without advance authority.

[8] In the Message from the President of the United States on "United States Foreign Policy for the 1970's, a New Strategy for Peace", it is stated on page 47, "To help other Western Hemisphere nations to increase their export earnings and thus contribute to balanced development and economic growth, *I have committed the United States* to a program which would help these countries improve their access to the expanding markets of the industrialized world. (Emphasis supplied.)

Labor is not mobile internationally—one of the pre-conditions for the free trade theory of comparative advantage. It is even highly questionable that labor is mobile domestically to the extent necessary to avoid severe adjustment problems.

If competitive import problems were restricted to only one or two industries, which might be classified as "inefficient", this could be thought of as a natural consequence of competition and hope that the labor contingent in these industries could shift to other more efficient industries. But it appears that the competitive problems affect most American industries to one degree or another, including industries which have employed the latest technological advances known in their fields. This presents an altogether different dimension to the problem of adjustment.

The Department of Labor has yet to do the difficult studies and analysis necessary to assess the degree to which imports and exports have affected American jobs on an industry and a regional basis. We do not know enough about the job qualifications of the worker displaced by imports to understand whether alternative employment is available. This should be a major concern *before* a concession is granted. Unfortunately, it rarely is.

Obstacles to U.S. exports appear to have grown since the Kennedy Round. This is in part the result of the fact that the level of tariffs has been reduced to the point where nontariff barriers play a more prominent role in distorting international trade flows. It is also related to certain actions by the Europeans to increase agricultural protectionism through the variable levy system, and to Japan's slowness in opening its market to imports and investment. The need to cope with nontariff barriers, including agriculture and investment barriers, is pressing. However, no one has taken the lead in showing the Congress specifically what can be gained (or lost) through such a negotiation on NTB's. Indeed, we have no idea what is negotiable. Apparently, the Europeans have taken the position that unless the Congress approves the elimination of the American Selling Price system of valuation negotiated during the Kennedy Round, there is no future in an NTB negotiation.

Dealing with the European Economic Community as a bloc of six nations is a difficult problem. The problem of dealing with an enlarged Community with England, the Scandinavian and Mediterranean countries as full or "associated" members will be even greater. The common agricultural policy of the Community and the use of the border tax—export rebate system of the Community present particularly difficult obstacles for U.S. exports. From statements made in the President's foreign policy message it would appear that the State Department puts a much higher priority on "European unity" than on the commercial interests of the United States in Europe.[9]

The U.S. relations with Japan have become somewhat strained because of the heavy volume of the Japanese imports into this country, particularly of textiles and other consumer goods, and the complete

[9] The President's message on "United States Foreign Policy for the 1970's, A New Strategy for Peace" contains the following statement: "Our support for the strengthening and broadening of the European Community has not diminished. We recognize that our interests will necessarily be affected by Europe's evolution, and we may have to make sacrifices in the common interest. *We consider that the possible economic price of a truly unified Europe is outweighed by the gain in the political vitality of the West as a whole.*" [Emphasis supplied.]

lack of reciprocity which U.S. exporters face when trying to do business with the Japanese. The relationship between currency values and trade flows is also an important factor in Japanese competitiveness, as is the close working partnership between the Government, the banking system and Japan's industries. The Japanese yen appears to be completely out of line with the growth and productivity of the Japanese economy and unless a realinement takes place the alternative may be import restrictions by the United States.

In the world's agricultural economy, there has been a terrific growth in productivity here and abroad to the point where the production of agricultural goods in industrial countries exceeds consumption. Production throughout the world is stimulated by price support programs. The United States supports its agricultural community through price supports and certain import restrictions. However, the U.S. is the only country in the world which has effective production controls on agriculture. The European Community market subsidizes its producers to a much greater extent than does the United States and does not control production. This production is dumped on world markets. In addition, the EEC's variable levy system has sharply cut back U.S. exports to that area which are subject to the levy. The competitive position of U.S. agriculture is somewhat less than the trade figures would indicate since between $1 billion and $1.5 billion U.S. farm exports are given under foreign aid programs mainly for local currencies.

There appears to be a real need to update and revise U.S. unfair trade practice statutes. The unfair trade practice statutes were written more than 40 years ago when composition and magnitude of foreign trade was radically different.

There is also the question of relationships between the Executive and the Legislative branches of Government with respect to foreign trade matters. Clearly, there is a need for a more effective working partnership in this regard.

The Executive branch appears to be divided within its own house on many issues. To date it has lacked a unified, single voice on foreign trade. Nor is it clear that its policy is consistent when it comes to favoring protection for some industry while singing the praises of free trade as a general policy. In addition, the tendency of entering into agreements with foreign nations and submitting them to the Congress as *fait accomplis* continues even though the Executive branch has been turned down on at least two of its negotiated agreements. It would appear wise for the policies to be agreed to by Congress before a negotiation commits the U.S. to a particular program.

These appear to be the major issues facing the United States in the formulation of a foreign trade policy adequate to the needs of the seventies. The answers are not simple. But there is a crying need for an overall review of the world economic structure, how it has changed, and what policies and programs the Legislative and Executive branches of this Government should take to meet the new challenges of the seventies.

APPENDIX

TABLE 1.—U.S. BALANCE OF TRADE, BY REGION, 1965–70

U.S. EXPORTS

[In millions of dollars]

	Total [1]	Western Europe	Canada	Japan	Latin America	Other [2]
1965	26,447	8,896	5,460	2,051	4,234	5,603
1966	29,389	9,577	6,766	2,340	4,720	5,986
1967	30,681	9,670	7,302	2,672	4,669	6,368
1968	33,588	10,539	8,141	2,959	5,274	6,675
1969	36,473	11,638	9,179	3,503	5,532	6,621
1970	42,041	14,205	9,057	4,654	6,495	7,630
U.S. IMPORTS						
1965	−21,496	−6,212	−4,818	−2,439	−4,356	−3,573
1966	−25,463	−7,663	−5,965	−2,974	−4,682	−4,039
1967	−26,821	−8,089	−6,854	−3,017	−4,651	−4,048
1968	−32,964	−10,203	−8,592	−4,069	−5,137	−4,911
1969	−35,835	−10,214	−9,994	−4,893	−5,217	−5,517
1970	−39,856	−11,276	−10,702	−5,894	−5,919	−6,065
U.S. TRADE BALANCE						
1965	4,951	2,684	642	−388	−122	2,030
1966	3,926	1,914	801	−634	38	1,947
1967	3,860	1,581	448	−345	18	2,320
1968	624	336	−451	−1,110	137	1,764
1969	638	1,424	−815	−1,390	315	1,104
1970	2,185	2,929	−1,645	−1,240	576	1,565

[1] Also includes transactions with international organizations and unallocated.
[2] Eastern Europe, Oceania, Africa, and other Asia.

Source: Department of Commerce, Survey of Current Business, various issues.

TABLE 2.—BALANCE OF TRADE, 1960–70

[In billions of dollars]

	Total exports	Less Government-financed exports	Commercial exports	Total imports f.o.b.	Estimated imports c.i.f.	Overall balance	Commercial balance
	(1)	(2)	(3)=(1)−(2)	(4)	[1] (5)	(6)=(1)−(4)	(7)=(3)−(5)
1970	42.7	1.9	40.8	40.0	44.0	+2.7	−3.2
1969	37.4	2.2	35.2	36.0	39.6	+1.4	−4.4
1968	33.0	2.9	30.1	32.0	35.2	+1.0	−5.1
1967	39.9	2.8	28.1	26.8	29.5	+4.1	−1.4
1966	29.4	2.7	26.7	25.6	28.2	+3.8	−1.5
1965	26.7	2.6	24.1	21.4	23.5	+5.3	+.6
1964	25.7	2.8	22.9	18.7	20.6	+7.0	+2.3
1963	22.4	2.6	19.8	17.1	18.6	+5.3	+1.2
1962	21.0	2.1	18.9	16.4	18.0	+4.6	+.9
1961	20.2	1.7	18.5	14.5	16.0	+5.7	+2.5
1960	19.6	1.6	18.0	14.7	16.2	+4.9	+1.8

[1] Imports including the cost of insurance and freight.

TABLE 3.—U.S. MILITARY EXPENDITURES ABROAD

[In millions of dollars]

	Total	United Kingdom	European Economic Community	Western Europe	Other Western Europe	Canada	Latin America	Other Western hemisphere	Japan	All other	Australia New Zealand South Africa	Other Asia and Africa
1946	493	21		-6		31	10			432		
1947	455	15		149		8	8			258		
1948	799	59		237		22	34			436		
1949	621	42		260		20	16			266		
1950	576	31		133		26	7			373		
1951	1,270	67		244		38	34			883		
1952	2,054	136		633		158	30			1,092		
1953	2,615	232		962		204	53			1,148		
1954	2,642	329		1,127		194	45			928		
1955	2,901	370		1,317		218	43			937		
1956	2,949	430		1,229		259	46			968		
1957	3,216	488		1,336		288	56			1,033		
1958	3,435	360		1,485		443	63			1,063		
1959	3,107	289		1,362		431	48			957		
1960	3,087	287		1,366		387		148	412		75	413
1961	2,998	225		1,305		357		157	392		98	463
1962	3,105	197		1,437		326		163	382		103	496
1963	2,961	184		1,333		296		171	368		105	502
1964	2,880	173		1,318		258		177	321		103	525
1965	2,952	154		1,314		177		163	346		57	733
1966	3,764	146	1,138		251	205		159	484		59	1,323
1967	4,378	210	1,119		287	232		182	538		29	1,779
1968	4,535	173	1,087		277	285		187	580		33	1,913
1969	4,850	208	1,172		247	295		176	651		42	2,058
1970	4,837	228	1,287		258	256		169	669		47	1,924

Source: U.S. Department of Commerce, Survey of Current Business, June 1968, June 1970; Balance of Payments Statistical Supplement, revised edition, 1963.

TABLE 4.—MAJOR FREE WORLD TRADERS WITH EASTERN EUROPE

[In millions of dollars]

Country	Exports			Imports		
	1959	1964	1969	1959	1964	1969
Free world total	2,990	5,402	[1] 8,300	3,038	5,270	[1] 8,300
Germany, Federal Republic	571	839	1,681	535	744	1,328
Italy	120	276	667	155	370	706
France	158	235	558	160	259	452
United Kingdom	203	291	554	326	541	797
Yugoslavia	147	308	451	170	378	507
India	92	270	351	66	281	418
UAR (Egypt)	194	216	[2] 354	160	149	[2] 178
Finland	180	220	347	203	314	328
Japan	29	218	342	44	256	575
Austria	129	215	327	129	198	273
Sweden	99	168	271	105	160	276
United States	89	340	249	81	98	195
All other countries	979	1,806	2,148	904	1,522	2,267

[1] Preliminary estimate.
[2] Estimated on the basis of eleven-months data.

TABLE 5.—U.S. AGRICULTURAL TRADE, 1965–70, IN MILLIONS OF DOLLARS

Year	Exports			Imports, total
	Specified Government programs [1]	Commercial	Total	
1965	1,536	4,693	6,229	3,986
1966	1,564	5,315	6,879	4,454
1967	1,269	5,111	6,380	4,453
1968	1,182	5,046	6,228	4,656
1969	1,018	4,918	5,936	4,957
1970 [2]	957	6,217	7,174	5,667

[1] Includes Public Law 480 sales programs, donations through voluntary agencies, barter for strategic materials and mutual security aid.
[2] Preliminary.

TABLE 6.—U.S. AGRICULTURAL TRADE WITH THE EEC, 1965–1970, IN MILLIONS OF DOLLARS

Year	Exports			Imports, total
	Variable levy [1]	Nonvariable levy	Total	
1965	626	850	1,476	270
1966	642	922	1,564	306
1967	529	931	1,460	331
1968	475	892	1,367	362
1969	340	929	1,269	363
1970 [2]	454	1,105	1,559	419

[1] Includes feedgrains, wheat and flour, rice, beef and veal, pork, poultry and eggs, dairy products and edible lard.
[2] Preliminary.

TABLE 7

U.S. Trade With Selected Countries, 1960-70

(Millions of dollars)

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
U.S. total											
Exports...............	20,608	21,036	21,713	23,387	26,650	27,521	30,430	31,622	34,636	38,006	43,226
Agricultural........	4,902	5,084	5,101	5,651	6,439	6,306	6,954	6,448	6,300	6,004	7,226
Nonagricultural.....	15,706	15,952	16,612	17,736	20,211	21,215	23,476	25,174	28,336	32,002	36,000
Imports...............	15,073	14,761	16,464	17,207	18,749	21,427	25,618	26,889	33,226	36,043	39,963
Agricultural........	3,824	3,691	3,868	4,020	4,143	4,080	4,530	4,472	5,054	4,954	5,665
Nonagricultural.....	11,249	11,070	12,596	13,187	14,606	17,347	21,088	22,417	28,172	31,089	34,298
Balance..............	+5,535	+6,275	+5,249	+6,180	+7,901	+6,094	+4,812	+4,733	+1,410	+1,963	+3,263
U.S./Canada											
Exports...............	3,812	3,837	4,052	4,261	4,921	5,657	6,679	7,172	8,072	9,137	9,084
Agricultural........	432	491	513	597	615	620	626	556	595	710	810
Nonagricultural.....	3,380	3,346	3,539	3,664	4,306	5,037	6,053	6,616	7,477	8,427	8,274
Imports...............	3,173	3,292	3,684	3,851	4,265	4,858	6,152	7,140	9,005	10,384	11,091
Agricultural........	168	194	188	174	176	234	240	201	226	244	308
Nonagricultural.....	3,005	3,098	3,496	3,677	4,089	4,624	5,912	6,939	8,779	10,140	10,783
Balance[1]..............	+639	+545	+368	+410	+656	+799	+527	+32	-933	-1,247	-2,007
U.S./E.E.C.											
Exports...............	3,992	4,169	4,576	4,921	5,309	5,256	5,529	5,667	6,127	7,005	8,423
Agricultural........	1,102	1,160	1,151	1,173	1,417	1,477	1,559	1,460	1,367	1,269	1,559
Nonagricultural.....	2,890	3,009	3,425	3,748	3,892	3,779	3,970	4,207	4,760	5,736	6,864
Imports...............	2,263	2,226	2,450	2,517	2,829	3,322	4,125	4,454	5,885	5,798	6,612
Agricultural........	221	227	232	238	258	270	306	330	368	363	424
Nonagricultural.....	2,042	1,999	2,218	2,279	2,571	3,052	3,819	4,124	5,517	5,435	6,188
Balance..............	+1,729	+1,943	+2,126	+2,404	+2,480	+1,934	+1,404	+1,213	+242	+1,207	+1,811

Exports...............	1,452	1,841	1,574	1,846	2,018	2,084	2,370	2,699	2,954	3,490	4,652
Agricultural........	485	554	481	651	720	876	943	865	933	934	1,241
Nonagricultural.....	967	1,287	1,093	1,195	1,298	1,208	1,427	1,834	2,021	2,556	3,411
Imports...............	1,149	1,055	1,358	1,498	1,768	2,414	2,963	2,999	4,054	4,888	5,875
Agricultural........	43	45	47	46	40	37	37	32	37	37	37
Nonagricultural.....	1,106	1,010	1,311	1,452	1,728	2,377	2,926	2,967	4,017	4,851	5,838
Balance...............	+303	+786	+216	+348	+250	-330	-593	-300	-1,100	-1,398	-1,223
U.S./Communist Areas											
Exports...............	194	134	125	167	340	140	198	195	215	249	353
Agricultural........	136	90	102	139	300	104	137	109	121	88	141
Nonagricultural.....	58	44	23	28	40	36	61	86	94	161	212
Imports...............	84	85	82	85	102	142	182	180	201	198	226
Agricultural........	39	40	39	35	38	48	56	63	60	59	62
Nonagricultural.....	45	45	43	50	64	94	126	117	141	139	164
Balance...............	+110	+49	+43	+82	+238	-2	+16	+15	+14	+51	+127
U.S./LDC's											
Exports...............	7,133	7,303	7,591	8,057	8,967	9,015	10,112	9,960	10,821	11,277	12,989
Agricultural........	1,638	1,635	1,720	1,930	2,196	2,050	2,296	2,332	2,277	2,000	2,372
Nonagricultural.....	5,495	5,668	5,871	6,127	6,771	6,965	7,816	7,628	8,544	9,277	10,617
Imports...............	5,997	5,739	6,071	6,283	6,711	7,173	7,797	7,709	8,886	9,373	10,450
Agricultural........	2,872	2,640	2,682	2,770	2,891	2,808	2,975	2,933	3,381	3,231	3,723
Nonagricultural.....	3,125	3,099	3,389	3,513	3,820	4,365	4,822	4,776	5,505	6,142	6,727
Balance...............	+1,136	+1,564	+1,520	+1,774	+2,256	+1,842	+2,315	+2,251	+1,935	+1,904	+2,539

General note: Agricultural and nonagricultural reexports are not readily available by country. Since 85 percent of the total is nonagricultural commodities, reexports by country are included above with the values of nonagricultural exports.

Communist areas are Albania, Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, Romania, U.S.S.R., and Outer Mongolia. LDC's are the countries in Western Hemisphere, except Canada; Asia, except Communist areas; and Africa, except the Republic of South Africa. [1]Following the Automotive Products Trade Act of 1965, the balance on automotive trade alone accounted for the following in millions of dollars in 1965-70: +613, +422, +239, -160, -681, and -1,042; and as measured by transaction values for imports of cars and trucks, instead of customs values, +633, +500, +406, +154, -308, and -694.

Prepared in the International Trade Analysis Division, Bureau of International Commerce, U.S. Department of Commerce, May 1971.

TABLE 8.—DEFENSE EXPENDITURES

	Percent of GNP		Percent of budget	
	1969	1970 [1]	1969	1970 [1]
United States	9.4	8.9	39.9	36.8
Portugal	6.7	6.5	38.2	36.0
Greece	5.9	5.7	21.7	20.1
Turkey	5.5	5.5	22.8	22.1
United Kingdom	5.8	5.5	18.0	17.2
France	5.1	4.7	21.1	20.5
Germany	4.1	3.9	26.0	24.5
Norway	4.0	3.9	16.8	15.3
Netherlands	4.0	3.8	14.1	13.0
Belgium	3.3	3.2	10.2	10.5
Italy	3.1	2.9	10.1	11.3
Canada	3.0	2.9	16.8	15.4
Denmark	3.0	2.9	10.6	8.4
Luxembourg	1.0	1.0	3.5	3.5
Japan	.8	.8		7.2

[1] Estimates prepared by DOD in September 1970.

Note: Fiscal years where calendar year date not available. Defense expenditures are NATO definition, except Japan. GNP is factor cost. "Economic Report of the President, February 1971," shows U.S. defense expenditures as 8.3 percent of GNP and 44.2 percent of Federal Government expenditures (excluding net interest and subsidies) in calendar year 1969.

TABLE 9.—NATO GOVERNMENT DEFENSE EXPENDITURES AS PERCENT OF GNP

	1965	1966	1967	1968	1969	1970 [1]
United States	8.1	9.1	10.2	10.0	9.4	8.9
Portugal	6.7	6.8	8.0	8.2	6.7	6.5
Greece	4.1	4.2	5.1	5.7	5.9	5.7
Turkey	5.8	5.2	5.4	5.5	5.5	5.5
United Kingdom	6.7	6.5	6.5	6.3	5.8	5.5
France	6.1	5.9	5.9	5.6	5.1	4.7
Germany	5.0	4.7	5.0	4.1	4.1	3.9
Norway	4.2	4.0	3.9	4.0	4.0	3.9
Netherlands	4.3	4.1	4.3	4.0	4.0	3.8
Belgium	3.3	3.3	3.3	3.3	3.3	3.2
Italy	3.7	3.8	3.5	3.4	3.1	2.9
Canada	3.7	3.5	3.7	3.3	3.0	2.9
Denmark	3.2	3.1	3.1	3.3	3.0	2.9
Luxembourg	1.5	1.5	1.3	1.1	1.0	1.0

[1] Estimates prepared by DOD in September 1970.

Note: Fiscal years where calendar year data not available. Defense expenditures are NATO definition. GNP is factor cost.

"Economic Report of the President, February 1971," shows U.S. defense expenditures as 8.3 percent of GNP.

TABLE 10.—U.S. BALANCE OF PAYMENTS: BALANCE ON A LIQUIDITY BASIS AND ON AN OFFICIAL RESERVE TRANSACTIONS BASIS, AND CHANGES IN U.S. GOLD STOCK FOR THE PERIOD 1950–70

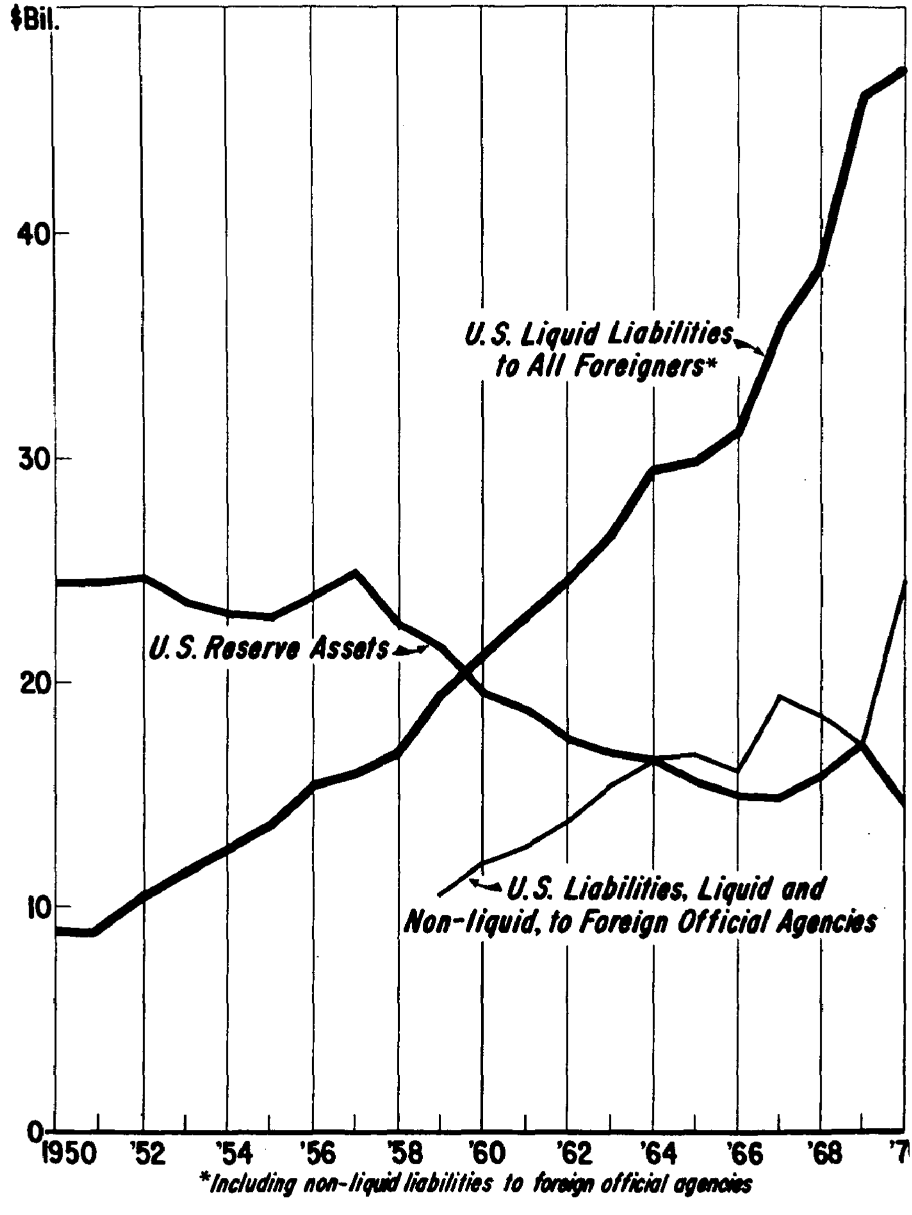
[In millions of dollars]

Year	Balance: Liquidity basis (deficit —)	Balance: Official reserve transactions basis	Change in gold stock (decrease —)
1950	—3,489	(1)	—1,743
1951	—8	(1)	53
1952	—1,206	(1)	379
1953	—2,184	(1)	—1,161
1954	—1,541	(1)	—298
1955	—1,242	(1)	—41
1956	—973	(1)	306
1957	578	(1)	798
1958	—3,365	(1)	—2,275
1959	—3,870	(2)	—1,075
1960	—3,901	—3,403	—1,703
1961	—2,371	—1,347	—857
1962	—2,204	—2,702	—890
1963	—2,670	—2,011	—461
1964	—2,800	—1,564	—125
1965	—1,335	—1,289	—1,665
1966	—1,357	266	—571
1967	—3,544	—3,418	—1,170
1968	171	1,641	—1,173
1969	—7,012	2,700	967
1970	[2] —3,848	[2] —9,819	—787
Total, 1950 to 1970	—48,171		—13,492

[1] No officially published figures on this basis available for years prior to 1960.
[2] Including $867,000,000 allocation of special drawing rights.

Source: U.S. Treasury Department and the Federal Reserve Bulletin.

U.S. RESERVE ASSETS AND LIQUID LIABILITIES TO FOREIGNERS



*Including non-liquid liabilities to foreign official agencies

U.S. BASIC BALANCE LIQUIDITY BALANCE AND OFFICIAL RESERVE TRANSACTION BALANCE