THE FUTURE OF U.S. FOREIGN TRADE POLICY

TUESDAY, JULY 18, 1967

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY,
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met at 10 a.m., pursuant to notice, in room 1202, New Senate Office Building, Hon. Hale Boggs (chairman of the subcommittee) presiding.

Present: Representative Boggs; and Senators Symington and Miller.

Also present: John R. Stark, executive director; John B. Henderson, staff economist; and Donald A. Webster, minority staff economist.

Chairman BOGGS. The subcommittee will come to order.

This morning we are pleased to have with us a panel made up of Mr. S. M. McAshan, Jr., president, Anderson, Clayton & Co., Houston, Tex., who was so helpful to us when he was here some years ago; Carl Gilbert, chairman of the executive committee, Gillette Co., Boston, Mass.; Henry Balgooyen, executive vice president, American and Foreign Car Co., New York; and N. R. Danielian, president, International Economic Policy Association.

Mr. McAshan, we will be pleased to hear from you first.

STATEMENT OF S. M. McASHAN, JR., PRESIDENT, ANDERSON, CLAYTON & CO., HOUSTON, TEX.

Mr. McASHAN. Thank you, Mr. Chairman. My name is S. M. McAshan. I am chairman of Anderson, Clayton & Co., of Houston, Tex.

None of us can foresee all the trade negotiations which will follow the recent Kennedy Round agreements, but I would like to mention briefly a few points which can arise as our long-range trade policies take shape.

FOLLOW UP ON KENNEDY ROUND

First, to follow up on the Kennedy Round, authority to continue negotiations is essential, if we are not to lose much of the good that has come from 5 years of hard trading.

Great accomplishment has come from these 5 years of tough negotiations in freeing up large parts of the international trade of the world's most important industrial trading nations. But it is inevitable that some industry or some country will try to make changes or renege for their own advantage. Mr. Roth, or his successors, will need to be empowered to negotiate adjustments to prevent such changes from becoming too one sided or too deep.

You gentlemen know how far such authorization can or should be the subject of legislation, but some form of continued authority will surely be needed to implement the recent agreements and to apply a fair interpretation to the many nonspecific clauses.

A National Trade Policy

We will need to clarify our long-range international trade policy. We have such a hodgepodge of liberal thinking and special privileges that we cannot present a clear, united front in negotiating with any foreign country or group.

We need to decide whether we really believe in the mutual benefit of comparative advantage, allowed free play without tariffs or quotas, or whether we want to continue special privilege for a few at the expense of the whole.

If the former, and I think we must enjoy the efficiencies and benefits of trade expansion, we should make it clear to the rest of the world and require them to adopt similar treatment of our exports.

The EEC has proven to themselves the efficiencies of expanded trade, but unless we force them to come along with us on a worldwide free-trade basis, they are likely to try to retain petty restrictions for the benefit of certain industries, aimed primarily at us.

We must take the lead in establishing a world pattern.

The Hungry World

Unless populations are controlled more successfully than we have a right to expect, agriculture of a large part of the world must be modernized, mostly by private business, the success of which depends as much on trade as technological processes.

(*a*) Many of the less-developed countries cannot be expected to become fully self-sufficient in foods and fibers, since such a large part of the world's land best adapted to these products lies within the temperate zones of the developed Northern Hemisphere.

Self-sufficiency being too much to expect, the problem becomes so serious that the world cannot afford any waste of efficiency. Any sound solution to the problem of feeding the hungry millions of the presently underdeveloped countries must include provision for freer access to markets for their surplus products; not only to those of Western Europe, Japan, and North America, but to markets generally.

The needs of the hungry peoples are so great that the free world must be organized to assure maximum food and industrial productivity, organized so free trade will guide production into its most efficient channels.

(*b*) If, say, India can get more wheat by exporting textiles and buying wheat than by attempting to raise it, are we not reducing India's—and the world's—efficiency, if in the name of self-sufficiency we ask India to do otherwise? If, to come closer to home, we were to lift our restrictions upon the import of all minerals and raw materials, we would surely obtain more of what we need through trade than by our own production, while at the same time the countries better fitted for the production of these materials would not only be able to pay cash for our surplus grain, but to get more of it.

It is with productivity—world productivity—that we must all be concerned. I do not minimize the importance of the contributions that technical efficiency can make to productivity, but I wish to emphasize that economic efficiency is fully as important.

Not all developing countries must necessarily remain the hungry countries. Their basic need and hope lies in permitting the working of free economy, free business determination to guide the way to maximum productivity.

The first requirement is the wide opportunity to trade what they can best produce for what they need from others. This is too basic, too urgent, to debate it further.

Western Hemisphere Common Market

The time has come for us to start a Western Hemisphere Common Market by removing all tariffs and quotas on any products from Canada and Latin America.

In 1965, the so-called four wise men—Messrs. Herrera, Santamaria, Mayobre, and Prebisch—vigorously recommended a Latin American Common Market, but excluded the United States. They did not even offer us associate membership. Their proposal has been the basis for hemispheric discussions since April 1965, particularly at Punta del Este this year.

I do not know what President Johnson meant by "temporary preferential tariff advantages for developing countries" in his Punta del Este talks. But I hope it was a bid for U.S. participation on a more liberal basis in the beginning than would be required of less industrialized Latin American countries. The eventual effect could be disappearance of negotiated temporary preferential treatment, perhaps after some 10 years of graduated equalization.

One of your members, Senator Javits, has wisely helped develop this idea, and has made it clearly to be reckoned with in future trade negotiations.

Commodity Agreements

Several lesser developed countries are requesting us to back up international commodity agreements, particularly as a means of price stabilization of their major export items.

Our position in this respect will depend partly on our basic free-trade policy, and partly on what we are willing to do with some of our own protected commodities.

(1) Commodity agreements, such as the international coffee agreement and the international sugar agreement, have shown up as forums for attempted negotiation of special treatment.

To the extent that these become restrictive in their effect, and particularly to the extent that restrictions run in terms of production quotas, these agreements obviously violate the principle of maximum productivity. Particularly this is true when the product is affected by long-term adverse influences and when the effect of controls is to freeze production in increasingly obsolete patterns. Many of the products of the less-developed countries are, it is true, normally subject to substantial price fluctuation from year to year, and as a result their balances of trade and of payments are for the time being distorted. But when such distortions occur, the provision of "supplementary financing," as by the IMF and the World Bank, appears to be least disruptive of market principles.

And in that connection I would like to mention for the record an article by Dr. John A. Pincus entitled, "Commodity Agreements, Bonanza or Illusion?" printed in the Columbia University Journal of World Business, January–February 1967. I would like it made a part of this record.

Chairman BOGGS. Without objection, it is so ordered.

(The article follows:)

COMMODITY AGREEMENTS: BONANZA OR ILLUSION?

By JOHN A. PINCUS

Kwame Nkrumah loiters in Guinea, a solitary redeemer, savoring memories of former potency and dreaming of power as yet untasted. A protesting Sukarno slides inexorably down a pole greased by his cabinet ministers. Middle Eastern sheiks command without deftness a power that their fathers, in mud-walled isolation, could never aspire to, even in the most paranoid of reveries.

These vagaries, which help to shape the world's political destinies, all reflect in part the fluctuations of world markets for commodities—the foodstuffs and raw materials that enter world trade. Nkrumah suffered politically from the consequences of falling prices for cocoa; Sukarno from declining rubber prices and reductions in export volume for tin and rubber; while the Middle East rides a petroleum boom.

Each of these examples deals with underdeveloped countries. This is no accident, because only in the poor countries of the world is commodity production—farming, forestry, and mining—the principal source of income. Many of the rich nations, such as the United States, Canada, Australia, and the Scandinavian countries, are major producers and exporters of commodities. In fact, the rich countries export half of the world's primary commodities, but only a small part of their population is employed in commodity production, and only a small part of government revenues stem from commodity taxes. Even Australia, Canada, and New Zealand, which export mostly commodities, today produce much more manufactured goods than commodities.

No wonder therefore that the pressure for world commodity controls comes largely from poor countries allegedly seeking to stabilize, but really to increase, their export earnings. Commodity export earnings account for a large part of their total production, with most of the people living and working as farmers. Exports of commodities (or in some cases capital inflows) are the prime source for financing the capital imports that they need now in order to become rich later. Furthermore, when commodity exports are booming, export taxes and import duties offer the governments a ready source of revenue to finance the ambitions of a Sukarno or a Nkrumah, as well as the less flamboyant goals of an Eduardo Frei in Chile, or a Kenneth Kaunda in Zambia.

PLEA FOR INTERNATIONAL RESCUE

Most poor countries seek rapid economic growth, which inevitably generates inflationary pressures and the demand for imports. Increases in commodity export earnings are therefore seen as a key to development without excessive inflation. Large-scale export of manufactured products still seems remote, and accounts now for only one-tenth of underdeveloped countries' exports. Finally, the governments of most poor countries take it as an article of faith that the terms of trade of commodity exporting countries are in a long-term decline that can only be overcome by conscious international action. Otherwise, in their view, as expressed in the resolutions of the United Nations Conference on Trade And Development (UNCTAD), the normal operation of world trade will tend to make the rich nations richer and the poor nations poorer.

This pressure for higher commodity prices has generally been resisted by the industrial importing countries, despite their own widespread use of farm price supports as a means of transferring income to farmers. Their standard arguments against price control through international commodity agreements are:

(1) They interfere with normal operation of markets, and tend to build up surplus production in response to higher prices; pressure of these supplies leads to breakdown of agreements, or at least to erosion of their effects on price.

(2) Because commodity agreements are usually based on export quota systems, they tend to freeze historical production patterns, to the disadvantage of efficient producers.

(3) They require a complex apparatus for control of exports and supply, which is further complicated by the existence of different grades of each commodity, each of which has a submarket of its own with fluctuating prices.

(4) Price and output controls, as established in commodity agreements, are an inefficient way to redistribute world income, as compared to direct subsidy, because price controls lead to less efficient production and lesser satisfaction of consumer preference than subsidies do.

(5) The income-redistributing effects of higher commodity prices may mean in effect that low-income consumers in industrial countries are forced to pay for improvements in the living standards of high-income producers in the underveloped countries. * * *

The controversy between governments of rich and poor countries has been thoroughly confused because they are simultaneously discussing several different issues without necessarily recognizing it.

First of all, much of the discussion of commodity agreements stresses price stability as an objective at least coequal with higher prices. Thus the UNCTAD resolution on the subject calls for: "suitable international arrangements . . . designed to *increase and stabilize* primary commodity export earnings, particularly of developing countries, at equitable and remunerative prices. . . ."

In fact, stabilizing earnings as such (i.e., smoothing out periodic fluctuations around a trend) is a trivial goal in poor countries' eyes. It has been much stressed, however, for two reasons: (1) year-to-year commodity price fluctuations are dramatic, and the advantages of greater stability, in terms of central economic planning and private investment, seem both obvious and ideologically innocuous; and (2) the stabilization goal offers an acceptable argument for introducing international commodity agreements, which can then be used to raise prices to "remunerative" levels.

Stabilization Smokescreen

Statistical evidence indicates that short-term fluctuations in export earnings do not slow down economic development, as compared to steady annual receipts. Though this statement is the reverse of what is usually said by spokesmen of poor countries, the proof-of-the-pudding principle casts substantial doubt on their contentions. If a country wants to stabilize annual export revenues, it has only to set money aside in good years, and spend it in bad ones. Yet very few countries do this.[1] The obvious answer is that poor countries lack the reserves to finance such stabilization in light of their aspirations for development. While this proposition may be perfectly valid, those who offer it frequently fail to recognize that it amounts to a demand for more foreign exchange in the guise of stabilization goals. Alisdair MacBean's exhaustive study of this subject[2] demonstrates conclusively that there has been no correlation in recent decades between income growth in poor countries and export fluctuations. Indeed, MacBean's conclusion, based on extensive analysis, is that short-run fluctuations in national income bear very little relation to fluctuations in export earnings. To the extent that short-term balance-of-payments problems arise entirely as a result of short-term fluctuations around an earnings trend, IMF credits, bilateral loans, and suppliers' credits are readily available; poor countries appear to feel no urgent need for additional safeguards aimed solely at the objective of stabilizing year-to-year earnings. What poor countries do want is higher prices (or at least no decline in prices) for commodities; "stabilization" objectives are primarily a tactic toward that goal.

A second source of confusion is between fact and theory about underdeveloped countries' terms of trade (export prices divided by import prices). According to theories developed by the Argentinian economist, Raul Prebisch, who now serves as Secretary-General of UNCTAD, there are inexorable forces at work tending to reduce the prices of commodities relative to manufactured products. This tends to hurt poor countries, which export mostly commodities,

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and to benefit rich countries, which import commodities and export manufactured products. In support of this view, Prebisch has argued that underdeveloped countries' terms of trade have in fact fallen since the latter part of the 19th century. He has been challenged by a number of economists, both as to theory and fact, but unfortunately the distinctions between logic and observation have not always been maintained. The theoretical objections point to a number of inconsistencies in his rather complex argument. The empirical ones question the data he has cited and argue that conclusions as to the long-term course of terms of trade depend on the choice of base period.

Primary Producer Can Bounce Back

No final conclusions about either fact or theory seem to be possible as yet. In recent years world demand for most major commodities other than petroleum has increased slowly compared to demand for goods and services in general, while commodity supplies have increased rather rapidly, thanks to the stimulus of high prices in the 1950's, the growth of synthetic output (particularly fiber and rubber) and protectionist policies in the rich countries. It may however be doubted whether world commodity prices will long continue sluggish or declining if world population continues to increase at current rates. * * *

A third source of confusion lies in the debate about what commodity agreements can accomplish. The poor countries, supported at UNCTAD by the government of France, sometimes appear to claim that higher commodity prices, secured by international agreement, are a source of instant prosperity. Most rich countries seem to argue that commodity agreements could not be effective in raising prices above market levels, but only in stabilizing prices over a cycle. This contention in its extreme form is obviously wrong, as witness the high prices paid to farmers in countries where agriculture is protected, or the high prices received for crude petroleum by low-cost exporters in the Middle East and Venezuela. The confusion lies both in the effort of rich countries to prove that because the policy is undesirable, or leads to administrative complications, it is therefore impossible; and in the effort of poor countries to show that because high commodity prices have often been beneficial in the past, they can therefore be legislated as a development panacea for the future.

This last dispute of course reflects the fact that each side assumes away the obstacles to its case and, thereby, simply sidesteps the central issues: What are the effects of commodity agreements on price? Who pays and who benefits from the higher prices? What commodities could be subject to effective international action in the interests of underdeveloped countries? Could the objectives of commodity agreements be met more easily by other devices that are both feasible technically *and* likely to be adopted?

The Trouble With Subsidies

It is clear that rich countries can pay poor countries any "price" they want for commodity exports. There is no logical, constitutional, or economic barrier to doubling or tripling the revenues that underdeveloped countries receive for commodity exports. This has nothing to do with whether demand is elastic (revenues declining in response to price rises) or inelastic (revenues rising in response to higher prices). If, for example, the governments of industrial countries want to pay some amount into an economic development fund for each pound of coffee they import, that sum can be as large as the generosity of governments allow. It is simply a subsidy to coffee-growing countries, and there is no limit to the amount of a subsidy.

But subsidies are not a popular technique for supporting farmers' incomes. The technique of operating through market prices via supply control is universally preferred by farmers and governments, because the consequent income transfer takes on the status of an impersonal market transaction rather than a gift, and does not enter as an item in the government budget. Furthermore, there is no particular reason to tie direct subsidy into commodity production. If rich countries want to subsidize poor ones, they can do it by foreign aid appropriations rather than subsidies to commodity exporters.

Long List, But Many Hitches

Therefore the income-increasing objectives of international commodity agreements are expected to operate through supply restriction. These techniques can normally succeed in raising producers' incomes only if demand for their output is inelastic.[3] Demand for a number of the major commodities in world trade is quite inelastic. The principal traded commodities are, in order of trade value: petroleum, meat, wheat, fats and vegetable oils, cotton, coffee, copper, wool, sugar, rubber, dairy products, tobacco, rice, corn, tea, cocoa, tin, jute, zinc, lead, bananas, and citrus fruit. The combined annual value of trade in these products is about $35 billion.

There are, however, a few hitches that would cause a number of these products to be dropped from any list of candidates for price-fixing agreements aimed at benefiting underdeveloped countries. Petroleum, accounting for nearly $10 billion of exports, is already subject to international price fixing by private agreements between oil companies and governments of the major petroleum-exporting countries. Meat, wheat, wool, dairy products and corn, amounting to an additional $5 billion, are primarily exported by rich countries, so that price-fixing schemes would hurt poor countries more as consumers than it would benefit them as exporters. Of the remaining sixteen products, six (oils and fats, citrus fruits, tobacco, copper, lead and zinc) are exported in substantial quantities by both rich and poor countries, so that the United States, Canada, Australia, Spain, and South Africa would be major beneficiaries of price-fixing schemes. This difficulty is not necessarily crippling, because these countries could presumably agree to pay their "profits" into a fund for the benefit of developing countries. However, these products present other problems for regulation. Nonferrous metals substitute for each other (and for plastics in some uses), so that the price of each would have to be regulated in light of all others. Vegetable and animal fats and oils also substitute for each other (and for synthetic detergents), so that the problems created by control efforts would be even more complex than for metals. Citrus fruits substitute for other fruits in the consumer budget. Finally, since each of these products, or a close substitute, is produced in a number of the major importing countries, a rise in the world price might lead to substitution of home production for imports, unless importers agreed to maintain home production at preexisting levels.

This leaves 10 major traded commodities for initial consideration under price-fixing schemes aimed at benefiting underdeveloped areas: cotton, coffee, sugar, rubber, rice, tea, cocoa, tin, jute, and bananas. All of these products are primarily exported by poor countries.

Jute and rubber are ruled out from the start, unless other textile fibers and synthetic rubber prices are also controlled. General control of world fiber prices seems out of the question, and while joint control of natural and synthetic rubber prices is theoretically possible, the countries that produce synthetic rubber show no interest in such a program.

And Then There Were Six

Cotton and rice are special cases in that the United States is a major exporter. Even if the United States renounced its potential profits under price-fixing schemes, other difficulties would arise. Raising cotton prices again implies control of other fiber prices, both natural and synthetic. The problem with rice is that underdeveloped countries are the principal importers, so that raising the price simply helps producers in some underdeveloped countries at the expense of consumers in poor countries. Furthermore, such a price rise would simply stimulate production in the importing countries.

The 10 products therefore reduce to six. The following table shows the average value of trade in each for the years 1959–61.

Product	*Value of exports (millions)*
Coffee	$1,878
Tea	616
Cocoa	521
Sugar	1,498
Tin	392
Bananas	334
Total	5,239

Two of these products, coffee and tin, are now organized under international commodity agreements. Tea was marketed under a commodity agreement from

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1933 to 1939, as was sugar intermittently from 1931 to 1961. Negotiations for an international cocoa agreement have been proceeding without success since 1958. Bananas, produced exclusively in the tropics, are probably ruled out because of competition with other fruits, both imported and domestic.

More From the Laggards

I have indicated elsewhere [4] that establishment of effective price-fixing agreements for these products, excluding tin, might have succeeded in raising underdeveloped countries' export earnings by \$450–\$900 million in 1961. The United States would currently pay about 35% to 40% of this total, and the other major industrial nations the following percent shares: United Kingdom, 11–12; France, 7–8; Japan, 6–9; Germany, 8–10. These percentages are based on estimates of each country's elasticity of demand for each of these products at monopoly price levels.

If these monopoly prices were in effect, the upshot would be to increase the relative share of western foreign aid now paid by some of the laggard donors—U.K., Japan, and Germany—and decrease the shares of the major donors, United States and France. United States and France now provide respectively about 60% and 17% of western foreign aid. If their aid through commodity pricing were respectively 35–40% and 7–8% of total western costs under a system of commodity agreements, then their relative share of total official aid would be reduced.

But the most important point to note from these figures is not their effects on the distribution of foreign-aid costs, but their total amount: \$450–\$900 million in 1961, rising to more than \$1 billion by 1970, and nearly \$2 billion by 1975. This compares with 1965 capital flows from rich to poor countries of about \$9 billion, and poor countries' total merchandise exports of \$36 billion. By 1970, capital flows may not have changed substantially from 1961 levels, while export values will have risen to about \$45 billion if current trends are followed.

The effects of monopoly pricing on export earnings would therefore be modest, but far from insignificant. This after all is what we would expect. The price of coffee (and the earnings of coffee exporters) has risen about 20% since the International Coffee Agreement was negotiated in 1962. Meanwhile, the world price of sugar has fallen to record low levels since the breakup of the Sugar Agreement in 1961, with disastrous effects on those exporters who depend heavily on world market sales. There is obviously a relation between prices of these products and exporters' foreign exchange earnings.

Five Ingredients

But signing agreements is no guarantee of high prices, high export earnings, or favorable effects on economic development. For the agreements to work effectively as agents of development goals, several conditions are required, in addition to inelastic long-run demand:

(1) Effective provisions for control over supply (not only export control, because when supply builds up, the pressures for breakup of the agreement become strong).

(2) Effective capacity on the part of existing governments to channel the increased earnings into economic development, rather than into higher profits for plantation owners.

(3) Less generally recognized, a market organization in which one or two producing countries dominate world supply, so that they are willing to practice restraint in the face of the inevitable supply control violations by smaller producers.

(4) A large number of producing countries, in order to assure a fairly wide distribution of gains from higher prices.

(5) Agreement to limit domestic production in those importing countries that can or do produce the commodity.

Let us take a look at existing and proposed commodity agreements in light of these criteria. First of all, it should be noted that the impetus behind most of them was the desire to stem price erosion rather than to achieve some maximum long-run level of earnings for producers. However, in terms of development goals, the issues listed above are nonetheless predominant.

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Tea, with Sugar

The Tea Agreement (1933–1939) clearly succeeded in stabilizing world prices during the depression, but its impact on development may be doubted. Most of India's and Ceylon's tea gardens were under British control, and the benefits of earnings' stabilization largely accrued to the plantation owners. Furthermore, with tea production then largely concentrated in four Asian countries, the benefits were also concentrated geographically. These very limitations made it relatively easy to control tea supplies. With a small number of large producers and a very inelastic demand for the product, each could see his advantage in cooperating in export control. Furthermore, tea can be "stored" on the bush, so that control can be exercised up to a point by picking more or fewer leaves at any time.

The Sugar Agreement (1931–1961) was a completely different matter. In the first place, the agreement covered only the so-called "free market," accounting for perhaps two-fifths of world trade. The rest of the world's imports are controlled by national legislation, notably British, American, and French import systems, under which each country imports from preferred suppliers at a premium price. The essence of the Sugar Agreement, as operated from 1954 to 1961, was a bargain by which Cuba, as the dominant free market supplier, agreed to manage its supplies and stocks, in exchange for its large quota in the high-priced U.S. market. The objective was to maintain world prices between 3.25 and 4.25 cents per pound, through a system of export quotas. The system worked moderately well until 1960, when the United States first reduced and then abolished the Cuban quota. The agreement has not been renewed since 1961, when Cuba insisted on and was refused a large increase in its basic quota. It presumably will not be renewed until the underlying political issues are overcome.

Any effort to maintain very high prices for sugar (more than 5 or 6 cents a pound in the long run) is probably self-defeating, even though world demand for sugar is increasing steadily. Unlike tea, sugar can be produced almost anywhere, even if at high cost. Therefore if prices rise, and are expected to remain high under a system of export control, production in importing countries would tend to rise sharply. This puts sharp limits on the price objectives that exporting countries could aspire to. In these circumstances, it is arguable that developing countries would gain more from free trade in sugar than from price manipulation. However, the tendency seems to be for more rather than less agricultural protectionism in importing countries, so that a sugar agreement still retains considerably more luster in exporters' eyes than the unlikely alternative of free trade.

Tin Stays Buoyant

The Tin Agreement (1954 to date) operates under some of the same conditions as the earlier Tea Agreement. There are only five major signatory exporters (Malaya, Indonesia, Thailand, China, Bolivia), dominated by Malaya; there are a relatively small number of producing units. Tin, like tea, can be "stored" easily, either by mining less, or by stockpiling. The agreement provided for a buffer stock, in addition to export quotas, which helped to manage supply. The buffer stock manager bought tin when prices fell below a floor level and sold it when they rose above a given ceiling. After considerable price fluctuations in the 1950's, the world price of tin began to rise in 1960. By 1961, the buffer stock was sold out of tin, all export quotas were off, and world prices since have been consistently far above the pre-1961 levels. The agreement remains in effect inoperative today, because of continued strong demand. Both floor and ceiling prices were raised when the agreement was last renewed (1965). The presumption is that tin prices will therefore remain well above the levels that led to the original agreement.

As in the case of tea, it may be questioned whether international action in the world tin market is a significant force in promoting economic development. Concentration of production is great, and although Bolivian, Indonesian, and Chinese governments, with their nationalized tin industries, clearly benefit from the rise in price, Bolivia is the only one that is heavily dependent on tin exports as a source of income.

Coffee Is Successful; Or Is It?

The International Coffee Agreement, negotiated in 1962, has clearly succeeded in maintaining export earnings of coffee producers above equilibrium levels by a system of export quotas. As might be expected, its very success threatens the stability of the agreement. By providing high and stable prices for coffee, it tempts producers to evade export controls. It therefore places a great burden of self-restraint on the major producers, Brazil and Colombia, who face erosion of their market shares at the hands of Central American and African producers. These smaller producers are unwilling to establish close control over exports and production. Even though importing members are theoretically unable to take extra-quota imports from exporting members, there seems to be a good deal of evasion in the form of transshipments through nonmember countries or so-called "new markets" not subject to the quota provisions.

In terms of many of the criteria discussed—demand elasticity, substitution, widespread benefits—coffee is an appropriate product for price-fixing arrangements. But the willingness and ability of the smaller producers to control supply still remains an open question, and it may be doubted that Brazil will consent to continual reduction of her share of the world coffee market by what are in effect extra-legal methods of quota evasion on the part of small producers. Recent modifications of the Coffee Agreement are designed in part to solve this problem.

Changing the Rules

The agreement is administered by a Coffee Council, composed of representatives of importing and exporting countries. The council regularly receives pleas for export increases from members who are unable or unwilling to control production and exports. The agreement assigns fixed percentages of the export market to each exporter so that selective quota changes are theoretically forbidden. In practice, however, when the alternative is collapse of the agreement, the council has devised ways of changing the rules. The most recent set of rule changes, adopted in September, 1966, is worth reviewing in detail as the first consistent effort to deal with the obstacles to price-fixing objectives and economic development goals.

First, the council explicitly recognized that the world coffee market is composed of submarkets for the four main types of coffee: Brazilian arabica, Colombian and Central American arabica, and African robusta. In the future, export quotas will vary by coffee type. This will presumably allow the major robusta producers (Ivory Coast, Cameroons, Angola) to increase their exports faster than other growers, reflecting the steady growth of demand for the lower-priced robusta in instant coffee preparations. It also offers an additional advantage: robusta producers generally complain that their quotas are too small under the existing agreement, and these producers are also often the least able to control production and exports.

A second element of the revised agreement combines temporary quota increases of varying percentages (zero for Brazil and Colombia and up to 10% for some African producers) with use of the proceeds to promote production control. Each country receiving a quota increase agrees to put into a special fund either 20% of the increased sales proceeds, or an amount of coffee equal to the amount of the quota increase. Each country will use the fund, under rules established by the Coffee Council, to promote agricultural diversification. This provision is presumably aimed both at promoting the economic development of the exporting countries and at meeting the objections of Brazil and Colombia to the perpetual growth of uncontrolled supply in other countries.

The third element proposed in 1966 (but not yet adopted) was a tax of one dollar on each bag of coffee exported under the agreement, to be paid by the exporting country. This would produce a revenue of about $45 million during the current marketing year. The proceeds would be used to finance programs of agricultural diversification, under control of the Coffee Council.

Finally, the council took steps to limit evasion of export quotas. Importing members agreed to limit their imports from nonmembers. Beginning in 1967, exporting members cannot ship coffee unless the export documents bear a stamp obtained from the Coffee Council. These devices can also be viewed as efforts to satisfy Brazilian demands for more effective control over world supply.

Outlook on Cocoa

Among the major products discussed here, only cocoa and bananas have not yet been subject to international commodity controls. Cocoa qualifies on many of the same grounds as coffee, but is difficult to store in the tropics, and faces a greater threat of competition, either from vegetable oils (used in place of cocoa butter) or from other confectioneries. Efforts at agreement failed in both 1963 and 1966, because of disagreements between producers and consumers as to the price at which export quotas would become operative. More recently, it has been suggested that a cocoa agreement include provision for a buffer stock, along the lines of the tin agreement, in order to maintain price within agreed limits. A cocoa agreement would provide a number of the prerequisites: one or two major exporters (Ghana, Nigeria), large numbers of producers, inelastic demand, good possibility of devoting excess profits to development goals. It is less certain that the African countries can effectively control supplies. This is probably one major reason for their insistence on an international buffer stock. Unfortunately, the producing countries seem reluctant to recognize that buffer stocks exist not only to buy, but also to sell, so that the buffer stock cannot be relied on as a permanent siphon for excess production.

Is It All Worth the Effort?

This review of the major products suitable for conscious efforts at price fixing shows that the possibilities are limited, the complexities of production control great, and the technique essentially inefficient as compared to direct aid. Furthermore, as noted above, the export quota system offers little incentive to efficient new producers, because it freezes an historical production pattern, without much regard for changing cost and demand patterns (although it is theoretically possible to adjust export quotas selectively, no exporter wants his share reduced).

Coffee and cocoa are widely produced by individual farmers, so the allegation that high prices benefit only the plantation owner is clearly untrue for these crops. For sugar and tea, the charge may be closer to the mark, although there are many small producers and export taxes can be used to siphon off excess profits, unless the government is dominated by producer interests. Tin is a rather special case where demand has long been buoyant; half the world's output stems from nationalized industries (Bolivia, Indonesia, China, Russia) and most of the rest from Malaya. There seems no particular reason to believe that for these five products the distribution of gains from higher commodity earnings need be more inequitable than those stemming from other forms of aid (except food aid, which presumably benefits low-income groups most).

Recent developments in the Coffee Agreement indicate the commodity agreements may be a more flexible device for promoting economic adjustment than was previously supposed. It is obviously too early to judge the success of these measures in their dual objectives of controlling coffee supply and promoting the agricultural development of exporting countries. The most significant element is clearly the diversification fund. In embryo at least, it foreshadows a principle of international control of the proceeds of monopoly pricing in the interests of economic development. In that respect, the Coffee Agreement becomes, in part, an aspect of international economic assistance under the joint policy control of rich and poor countries. This novel organizational device may if successful, offer broad possibilities for application to other commodities and, for that matter, for other forms of economic aid.

However, this qualified support for a limited number of commodity agreements is, from another viewpoint, an admission of their weakness as answers to the world's commodity problems. Such agreements are only one element in a general policy to improve the trade position of commodity-exporting countries. The other elements include:

(1) Major efforts to increase the productivity of industries facing competition from synthetic substitutes or competing production in importing countries (rubber, fiber, sugar, rice, oilseeds).

(2) Reduction of protectionism in importing countries (petroleum, sugar, tobacco, nonferrous metals, fruits, meat, etc.). This is probably the largest potential source of increased exports for poor countries. Free trade in sugar alone might increase underdeveloped countries' exports earnings by nearly one billion dollars, at least as much as the amounts forthcoming from price-fixing agreements for coffee, cocoa, sugar, tea and tin combined.

(3) A system of international compensation for countries whose export earnings lag over a period of several years because of market factors beyond their policy control (e.g., Brazil from 1959 to 1963). This would be in addition to existing IMF loan facilities for countries facing short-term balance-of-payments problems that have arisen from commodity price fluctuations.

The excessive emphasis that the poor countries have placed on high prices reflects in part ignorance of the limitations of this technique; in part, the related belief that economic justice requires a fair price for exports; and, perhaps most important, pessimism about the likelihood of trade liberalization by the rich countries. But their confidence seems misplaced; the experience of the past five years makes it increasingly clear that no panacea will emerge. Each of the four elements—price objectives, higher productivity, trade liberalization, and balance-of-payments compensation—should play a part in a long-run adjustment effort for the nearly two billion people whose livelihoods now depend on commodity production. As long as the economic welfare of most people depends on markets for food and raw materials, the commodity problem will remain in the center stage of the world's political economy.

NOTES

1. The commodity marketing boards in West African countries were designed to operate in such a manner, and during the era of high commodity prices following the Korean War actually amassed considerable reserves. The combination of declining prices and pressures to spend reserves, stimulated by postindependence developmental goals, has largely succeeded in eliminating the income-stabilizing functions of the marketing boards.

2. *Export Fluctuations, Growth and Policy* (Harvard University Press; to be published this year).

3. Exporting governments can profit from higher prices even under elastic demand, if the labor and capital released from commodity production can be effectively used in other economic activities. But the mobility of labor and capital in poor countries is often quite limited.

4. John Pincus, *Trade, Aid, and Development*, New York, McGraw-Hill, 1967.

FOOD AID

Mr. McASHAN (continuing). American farmers can produce food as efficiently as any part of the world, due to their mechanization, cultural practices, sound infrastructure and marketing organizations, particularly if our farmers are not prevented from doing so by acreage restrictions or other controls.

In a shortly to become hungry world our ability to provide food aid will give us a strong negotiating tool to persuade the recipient nations to follow sound development programs of their own, and to take the lead among other developed countries who should share this burden proportionately with us.

Food for aid must be bought from our farmers by our Government, and partially processed in American plants, thus providing a measure of stabilization here at home with less market disturbance than recent price support programs.

PAYMENTS UNION

Just as the United States financed trade balances for and between European nations in the early days of the Marshall plan, and with very small financing loss to us in doing so, we can now provide backing for a payment union or clearing pool with the LAFTA countries or other free trade areas.

The advantages would be two:

(*a*) it would introduce more credit in a credit-hungry area, and

(*b*) it could encourage trade liberalization within the area by providing a cushion against any immediate adverse balances.

The value to new trade areas in the developing countries of such a clearing pool will be so great that it can become one of our strong bargaining points, at negligible cost to us.

Representative BOGGS. I thank you very much.

Mr. MCASHAN. Mr. Chairman, one other thing.

On the plane coming up last night I had a chance to read the papers submitted by Mr. Roth and Mr. Solomon, both of which I obviously endorse as basic parts of our future trade policy.

Representative BOGGS. Thank you very much for your very fine statement.

We will now hear from Mr. Gilbert.

We are very happy to have you with us, Mr. Gilbert.

STATEMENT OF CARL J. GILBERT, CHAIRMAN OF THE EXECUTIVE COMMITTEE, THE GILLETTE CO., BOSTON, MASS.

Mr. GILBERT. Thank you, Mr. Chairman. My name is Carl J. Gilbert. I am chairman of the executive committee of the Gillette Co., but I will testify in my individual capacity.

We are concerned here with future U.S. trade policy. In the light of what has occurred in the Kennedy Round, I would think that what we need immediately is an extension of the unused authority in the 1962 act for housekeeping purposes, as Ambassador Roth proposed, a liberalization of the adjustment assistance provisions of that act and the approval by Congress of the second package on chemicals (or ASP). This seems to me a minimum at this time. And I join with Mr. McAshan in endorsing the comments Mr. Roth made before this subcommittee last week.

It seems to me that the deliberations of this committee are very timely in view of the need for early action by the Congress on the course of action proposed by Ambassador Roth. Equally important, it seems to me, is the hope that your deliberations may help to focus national attention, both in the Government itself and on the part of the public, on the formulation and appreciation of a national commitment to a long-term trade policy as a part of a considered national foreign economic policy. I suppose that there is no other area of public affairs in which there is a greater need for consistency and stability than in the broad area of foreign economic policy. The day must come when every decision—legislative, executive, and private—must be tested against the standard of its consistency with the country's foreign economic policy before taking action. We cannot expect consistency or stability so long as our foreign economic policy remains obscure, unformulated, and ascertainable only by a process of deduction from a series of ad hoc actions in various areas of national concern. This need has gone unanswered for many, many years. Our involvements in the world scene are economic as well as political and equally so are irrevocable and call for long-term policy planning of a very high order.

The trade policy goal on which we should set our sights is freedom of international trade on the part of the world's economically advanced countries and regional instrumentalities, accomplished in accordance with a negotiated timetable and providing for appropriate differences in phasing to reflect the capabilities of specific countries and specific types of production. Setting our sights on this objective and identifying ourselves unmistakably with its implementation is the route of maximum effectiveness in overcoming the many obstacles that made the very real achievements of the Kennedy Round considerably less than the goals considered a few short years ago to be essential (and which are still essential) to our national interest. A clear national commitment to this long-term objective stands the best chance of overcoming the short-term impediments to continuing genuine progress in liberalizing world trade.

Pointing the way to this long-range goal in this vital area of both foreign and domestic policy is of great importance to all sectors of our highly productive economy, and not just in terms of their stake in export expansion. As entrepreneurs in manufacturing, mining, and agriculture make decisions that must continually be made with respect to investments, pricing, sales promotion, and design, and all the other decisions so essential to effective business planning, it is important for those who make these decisions to take appropriate account of their government's long-term policy with respect to our trade with the rest of the world. A policy tending toward trade restriction, or indicating a posture of even temporary uncertainty regarding future policy, will tend to encourage efforts to impose restrictions on trade and to rely on such restrictions, present or hoped for, instead of pursuing efforts to generate the best kinds of job opportunities and the highest levels of economic performance of which a free enterprise economy is capable.

Pointing the way to these new goals of freer world trade is also essential at this time to the scores of countries with which we trade, and whose economic strength and cooperation are essential to the achievement of our highest international objectives in the world at large. The message from America to nations at all levels of economic development should not reflect uncertainty regarding the future course of American policy, and it should certainly not indicate any possibility of this country returning to points of no return we wisely decided to pass so long ago.

The economically advanced countries should know where we stand and the direction we intend to take, as they proceed with their own policy planning, in some cases as part of regional free trade communities. The clear determination of the United States to continue to progress toward freer trade, and even to accelerate progress in this direction, will tend to influence private and governmental decisions in those areas in ways that accelerate sound economic growth, raise living standards, and expand markets for producers everywhere, including our own. Convincing evidence of our own determination to cooperate in reducing artificial barriers to world trade is the policy declaration best calculated to stimulate other economically advanced nations and regional instrumentalities to liberalize foreign access to their own internal markets. And, working together in this way, the economically advanced economies can proceed most effectively to carry their full share of the needed efforts to speed the development of the less-developed countries—both through foreign aid programs and through expanding the access of goods of all kinds from the less-developed countries to the world's best markets.

In declaring our readiness to pursue such a policy without delay in the years to come, we shall be reaffirming, in convincing action, to the world's less-developed countries and the millions of people who live there that there is a meaningful place for them in the world economy dominated by advanced nations of the northern hemisphere. By doing so, we shall also be serving our own enlightened self-interest.

I think it should be emphasized that trade policy initiatives are not the sole responsibility of the United States. We should, of course, seek the cooperation of other governments in implementing initiatives in which we have played a leadership role. We should also invite other governments to step forward with their own trade policy initiatives and to seek the cooperation of the United States in exploring new frontiers of freer world trade. We should invite other governments to assert themselves in this way, and promise them the earnest participation of the U.S. Government in exploring ways and means for successful international cooperation in this vital field.

The Federal Government itself should, it seems to me, pledge to the country its earnest efforts to help in the most constructive was to prepare the American economy both to adjust successfully to the higher degrees of international competition that lie just ahead and to capitalize fully on the higher degrees of export opportunity which are the other side of the same coin. The Federal Government should work closely with State and local governments to insure a domestic policy framework within which the American economy may achieve the pace of economic growth and adjustment-to-change that are so necessary to backstop the new efforts that will be made to remove artificial restraints on world commerce.

The private sectors of the American economy should reassess their operations across the board to make sure that everything possible is being done to secure for themselves a durable and highly productive place in an increasingly interdependent world economy—one that is moving resolutely toward freedom of international trade. All State and local governments should also undertake a fresh look at their own policies and practices affecting the prospects for durable competitive strength in this kind of world. The Federal Government should reassess its own policies with this objective in mind, and this includes devising ways in which the Federal Government can be helpful to State and local governments, and to the private sectors of the economy, as they prepare for the part they must play in building a brighter future for the American people, and in insuring the successful participation of their country in helping to build a brighter future for peoples throughout the world.

It seems to me clear that history tells us that world attitudes toward trade restrictions are never static. They are always in a state of flux. We led the world once down the path of trade restrictions via the Smoot-Hawley Tariff Act of 1930. By that action we triggered off a wave of severe trade restrictions which in a short period brought world trade to a virtual standstill and contributed in a major way toward converting a serious recession into the great depression from which we only emerged during the aftermath of World War II. We can't turn the clock back and retreat into a sort of fortress America in economic terms. The momentum toward freer trade must be maintained if this complicated world we live in is to continue to produce a constantly higher and higher standard of living for more and more of its population. In attaining this aim lies an exciting and satisfying future for our country. God alone knows what the result would be if we should fail.

Chairman BOGGS. Thank you very much, Mr. Gilbert.

We will now hear from Mr. Balgooyen.

STATEMENT OF HENRY W. BALGOOYEN, PRESIDENT, AMERICAN & FOREIGN POWER CO., NEW YORK, N.Y.

Mr. BALGOOYEN. My name is Henry W. Balgooyen. I am president of American & Foreign Power Co. and I recently completed a 3-year term as president of the Pan American Society of the United States.

My interest in foreign trade policy derives from more than 30 years of activity in the foreign investment field in Latin America with an American company having extensive investments in Latin American utilities, and, recently, in diversified industrial investments. My remarks, therefore, are directed toward those elements of foreign economic policy which have a direct bearing on inter-American trade and investment.

The interrelation of foreign trade and foreign investment is apparent to any participant in either activity. The foreign investments of American corporations are principally in the form of exports of capital goods and equipment of U.S. manufacture. The new industries which are created and fostered by American investors increase the productivity of the recipient or host countries, create new sources of employment and income, and stimulate new wants and desires which are rapidly translated into demand for imported products as well as goods of local origin. This is particularly true of our direct private investments in the developing countries; and among the developing countries, those of Latin America provide the largest and most productive market for American goods.

Foreign trade is vital to the success of the ventures of the millions of American citizens who invest in the securities of companies with foreign operations. It is largely by foreign trade that the host countries acquire the dollars to service these investments and pay for the imports of capital goods required for their industrial development. Dollars are provided, also, by the foreign expenditures of American tourists and other service transactions; by new dollar investments; or by loans and gifts from the U.S. Government and various lending agencies and institutions. Speaking from many years of experience in dealing with Latin Americans and their governments, I can assure you that they would rather earn these dollars than to be dependent upon loans which have to be repaid with interest, or upon largesse which deprives them of their pride and self-respect. I can assure you, also, that however important and necessary these government loans and gifts may be to the recipients, their needs for the capital, technology, skills, and administrative experience they obtain with private U.S. investments are even more vital to their economic development.

Now, how do we stand in our trade with Latin America? Do we buy sufficient Latin American products to enable our trading partners to import the capital goods required for industrial development to meet the growing demands for consumer products created by rising living standards, and to service the estimated 9 billion of the dollar debt of their governments and the $9½ billion our private investors have ventured in Latin America?

The answer, of course, is that we do not. In fact, we don't even come close. Last year, we spent $3,970 million on imports from Latin America and sold them goods in the amount of $4,235 million, leaving them with a deficit of $265 million in their trade with us. At the same time, our private investors earned and remitted $888 million, while the interest and amortization charges on their foreign debt—perhaps three-fourths of it in dollars—cost them well over $2 billion.

Latin America's foreign debt has been increasing so rapidly that its servicing now consumes one-sixth of its earnings from exports. It becomes pertinent, therefore, to ask how much more debt these countries can stand and remain reasonably solvent. Clearly, if our Latin American friends are to make any economic progress without becoming increasingly dependent upon U.S. aid, ways must be found to enable them to increase their export earnings—to replace their trade deficit with the United States, their principal trading partner, with a surplus. The unfortunate fact is that Latin American exports have been losing ground, not only as compared with exports from the industrial countries, but even when compared with exports from other less developed areas.

What avenues are open to us, in the area of foreign trade policy, by which we can assist the Latin American nations to increase their export earnings? The first and most obvious is by the removal of any remaining barriers, not absolutely essential to our national interest, which impede the entry of Latin American products to the United States.

One of the complaints most frequently heard in Latin America is that we exhibit great interest in our Latin American neighbors in time of national emergency but quickly forget them when the crisis is over and proceed to reimpose trade barriers of various kinds to keep out their exports. In an address delivered some years ago, Henry Holland, then Assistant Secretary of State for Inter-American Affairs, called attention to the fact that, except for coffee and bananas, which we don't produce, every one of the 10 principal export products of Latin America had been subjected to trade barriers of one kind or another. The situation has improved in the intervening years, but we still have restrictions of various kinds on such Latin American products as petroleum, sugar, cocoa, wool, beef, cotton, lead, and zinc.

European barriers to Latin American products are much more extensive than ours, and their discriminatory preferences in favor of other producing areas are a further handicap to Latin American exporters. Efforts were made by our negotiators during the Kennedy Round to have some of these barriers and preferences removed. It is generally conceded, however, that for the less developed countries, the results of the Kennedy Round were far from encouraging. Nevertheless, we should continue these efforts, along with a constant review and study of our own restrictive trade policies relating to products which, otherwise, could be imported advantageously from Latin America.

Looking to the future, we should be prepared for the emergence of the Latin American countries as exporters of semimanufactured and finished goods; and we should do all we can to encourage this development. Unhappily for Latin America, the incidence of tariff duties on products which they are in a most favorable position to process and manufacture increases with the degree of fabrication, thus creating a disincentive for industrialization. This is true of wool, cotton, rubber, wood, cocoa, leather, copper, and many other products.

I am not suggesting that the obstacles to Latin American industrialization and exports are all of our making or that they all are external in origin. The most difficult problems are the internal ones; the emphasis on import substitution behind tariff barriers rather than on efficient production for export; the formidable geographical barriers to internal trade and commerce; the limitations on economies of scale imposed by their small domestic markets; the prevalence of inflation, often self-inflicted as a result of overspending by governments on high-cost and inefficient industrial projects which might better be left to private enterprise; inexperience in producing for, and in cultivating foreign markets; and low productivity resulting from lack of education and industrial skills, and other factors. Nevertheless, despite these obstacles, such countries as Mexico, Brazil, and Argentina are developing significant export capacity in manufactured goods, and there are numerous opportunities in these and other countries for industrialization and exportation of indigenous raw materials, if the United States and other industrial countries are willing to open their doors just a little way so that some of these products can enter.

The Latin American nations, together with other less developed countries, have been urging for some time that the industrial countries should be willing to grant tariff and other trade concessions to them, without expecting reciprocity as a contribution to their economic growth and development. This was the dominant theme at the UNCTAD Conference in Geneva, and it was taken up by the Latin American nations at the recent Summit Conference at Punta del Este. President Johnson promised, at Punta del Este, to consider what might be done by the industrial countries in the way of providing such preferential treatment. Beyond this, there have been recurring suggestions by Latin Americans and their friends in the United States that our Government should extend such concessions or preferences on a Western Hemisphere basis, regardless of what other nations may do.

The principal argument against the granting of such preferential concessions is that this would violate the most-favored-nation principle and the commitments that the United States has undertaken as a leader in world trade, under the GATT agreements. As a matter of fact, however, the most-favored-nation principle is being violated every day by the entry of duty-free African products into the EEC countries, and by the longstanding system of British Commonwealth preferences. While it is understandable that the United States should take the position that preferences, if granted, should be extended to all the less developed nations on an equal basis, I suggest that, if this principle continues to be violated by the other industrial nations, we should be prepared to set up our own system of Western Hemisphere preferences and to seriously study the practicality of setting up a common market of the Western Hemisphere.

If Great Britain and the EEC countries have special interest in, and special responsibilities toward, the British Commonwealth and certain African countries, I submit that we have equal responsibilities toward, and greater interests where Latin America is concerned.

I would caution, however, that any trade preferences extended by the United States to the less developed countries in general, or to Latin America in particular, should not be unqualified or unlimited in duration. Rather, they should be granted in the form of incentives for adherence to specified standards of performance, and should be subject to continuing review. Performance in such matters as fiscal and monetary policy, treatment of domestic and foreign private investments, and removal of export taxes and other self-created impediments to export, and adherence to reasonable standards of efficient production and quality control should be considered in this connection.

In the case of Latin America, specifically, the granting of trade preferences or other export incentives should be related to Latin American efforts and progress toward the elimination of excessively nationalistic restrictions and the creation of a larger intra-American market through development of LAFTA, CACM and, ultimately, the proposed Latin American Common Market. The advantages to be gained through the creation of a free-trade area, or a common market, are well known to our Latin American friends, but a major effort, over an extended period of years, will be required to remove the economic, financial, psychological, and nationalistic obstacles that stand in the way of its accomplishment.

Another positive contribution that we might make to Latin American export expansion and economic development lies in the politically sensitive field of agricultural policy. Our protectionist policies in the form of domestic price supports, export subsidies, and disposition of farm surpluses abroad on noncommercial terms, are frequently in conflict with our proclaimed objective in the area of foreign economic policy, and in the Alliance for Progress. If we are sincere in our stated purpose of assisting our Latin American neighbors to be self-supporting and prosperous, we should subject our own policies, both domestic and foreign, to continuous review to be sure that they are consistent with these objectives.

One of the most serious of Latin America's economic problems is the failure of its agricultural production to expand in line with population growth and the increase in industrial production. Latin America needs financial and technical help to remedy this deficiency, but it makes little economic sense for us to extend this assistance and, at the same time, provide unfair competition for their producers by subsidizing our agriculture and undercutting their export markets. I am not suggesting that intelligent self-interest should bow to the dictates of foreign economic policy or good neighborliness, but we might be able to save some money, and do our own consumers a good turn, by providing incentives for our farmers to stop producing commodities which can be imported more economically from other countries.

At this point, I would like to make a brief comment on a related matter on which hearings were recently held by the Committee on Banking and Currency: whether we should condition our contribution to a projected increase in the capital of the Inter-American Development Bank—which has been called the bank of the Alliance for Progress—to an agreement that the dollars loaned by the Bank must be spent in the United States. It seems to me that, as a practical matter, the borrowers should be free to spend these funds in the most economic manner—to purchase at the lowest price consistent with quality and performance. Certainly, a Brazilian borrower should not be precluded from purchasing in Argentina, or vice versa, if we mean what we say about encouraging Latin American integration and industrial development.

I will readily concede that some of the suggestions I have made may seem to conflict with efforts to bring our international payments into better balance; but I don't think it behooves us, on the one hand, to try to improve our balance of payments at the expense of Latin American countries while, with the other hand, we are loaning them money to improve their payments position. I feel very strongly that, despite our global commitments as a world power, Latin America is our primary field of interest, and anything we can do to assist our good neighbors and trading partners to speed their economic development and social progress by helping them to help themselves not only will be a sound investment in inter-American relations but will be a real contribution to our own national welfare and security.

I thank you for giving me this opportunity to express my views on some of the elements of our foreign trade policy that have a bearing on our inter-American relations.

Representative BOGGS. Thank you very much, Mr. Balgooyen.

Senator Symington, do you have any questions?

Senator SYMINGTON. Thank you, Mr. Chairman. First, let me compliment the Chair for having these most constructive hearings.

Mr. Gilbert, I notice you represent one of the great corporations in this country, which excels in automation and has a strong position in foreign trade. I come from a State which is first in the shoe industry. It is difficult for my people to compete because of the tremendous difference in the standard of living, specifically, wages. The shoe business here is being steadily eroded due to foreign competition, primarily from Japan, secondarily from Italy. I am wondering how you feel about that, from the standpoint of the future of U.S. business?

Mr. GILBERT. I am not qualified, Senator, to talk about the shoe industry specifically. I think basically I have come to believe over the years that our country would be better off if we do the things we can do best and take advantage of corresponding skills in other parts of the world, and by this route our people will end up leading the best possible life. And if it requires a future negotiation, or future legislation, the problem comes up as to a specific industry. And I tried to point out in my short remarks the timing and phasing—how one arrives at a free trade goal depends upon problems in particular industries in particular countries.

I would like to differ with you just a second on the use of the term "automation." I don't know what it means. And in that sense I don't believe Gillette is characterized by automation in the sense that you put an IBM tape in a machine and it runs the machine alone. And what we have done, I think, is typical of industry in general since the beginning of the industrial revolution. We have tried to improve the productivity of men by intelligent application of proper tools for them. I am sure this has been done in shoes as well as in other things. Whether it has been done to the limit I have no opinion. And whether it has been done as much as it could be done if they were pressured by foreign competition, I don't know either.

But I think these are good questions. I think that our country will move toward a more efficient production the more competition they have, whether it be internal or external.

Senator SYMINGTON. I appreciate that. Much of foreign automation—the word was applied after World War II—we gave abroad many billions of dollars of our best equipment. As a result, foreign competition has the same machinery, the best in this country. It has been given or loaned.

Do you have a patent position in, say, Japan?

Mr. GILBERT. Not of any basic consequence.

Senator SYMINGTON. An interesting answer.

Mr. GILBERT. I would like to make a point, if I may, Senator. Looking at the growth and the development of our company—as you know, we are in many places abroad—I would have no qualification for my opinion that our company's strength comes from the fact that we are able to attract the best technology from everywhere in the world. There was a time at the end of the 1930's when, if it hadn't been for the fact that our British subsidiary was doing a better job of making blades than we were in this country, the company would have probably gone out of business. As you look around the company, in all of our machine shops you will find Cincinnati milling machines, Genevaire drill presses—we look to the best there is in the world, and get it, and combine them, and make them go to work for us. And I think this is where strength comes from industrially.

Senator SYMINGTON. Thank you, Mr. Gilbert.

Mr. Balgooyen, you say "we exhibit great interest in our Latin American neighbors in time of national emergency but quickly forget them when the crisis is over." To what are you referring?

Mr. BALGOOYEN. In am referring specifically to World War I, World War II, and even now when we are engaged in Vietnam, when we need to have the strategic materials that Latin America produces, materials such as copper, for example, and we remove the impediments to their exports. But after the emergency is over, then we hear from our own producers. The tendency has been in the past to reimpose these restrictions after the emergency is over. That was particularly apparent after World War II. I am not indicating that we forget them completely; but, in the matter of helping them to promote their export trade to this country, we do have a tendency to forget them.

Senator SYMINGTON. Thank you.

You mentioned that "the entry of duty-free African products into the EEC countries by the longstanding system of British Commonwealth preferences." But it is true, is it not, that the French have said to the Germans, you scratch our agricultural back, and we will scratch your industrial back, and together we will keep out as much Anglo Saxon trade as we can. If you take that as a premise, would you say it was more important for us to work with the countries of Central and South America, or with the countries in EFTA, including Great Britain and the Commonwealth countries outside of EFTA, in order to attempt to establish our own bloc as against the European bloc. Which do you think the more important?

Mr. BALGOOYEN. That is a very good question, and I wish I were qualified to give you an unqualified answer. But I am not.

Certainly, we have to maintain the very close relations that we have had traditionally with the Western European countries, Great Britain, France, and the other countries. But I feel very strongly that so far as the less-developed world is concerned our primary interest is in Latin America. In time of great national emergency we have always found that we can count upon the Latin American nations to supply us with the essential strategic raw materials and foodstuffs we need. And I think we have to protect our position in this hemisphere.

Right now the Latin American countries, as we know, are not making the progress that we hoped that they would make under the Alliance for Progress. The gap between their standard of living and ours is not narrowing. We are reaching a situation, as I indicated in my testimony, where it seems to be economically impossible for the Latin Americans to import the machinery and equipment that they need to speed their industrial development, and to service the investments and the loans that our Government and our citizens have extended to Latin America, unless they can export more of their products.

So, the matter of assisting Latin Americans to increase their exports, particularly in this market in the United States, which is their most important market, becomes a matter of prime importance. Latin America is a field of strategic interests as well as political interest, as is evidenced by the great efforts that the Communist world has made in getting a base in Cuba and exploiting it, which they are doing now by means of guerilla movements all over Latin America. By the end of this month an international meeting will be underway in Havana, a gathering of guerilla chieftains from Latin American countries, supported by the Russians, and of course promoted by the Russians, and their Castro Communist allies. And I am quite concerned with what may happen over the remainder of the year and next year in Latin America as a result of this conference.

This is a rather lengthy explanation, but my concern for Latin America is colored by the direction that I see that some of these political development as well as economic developments are taking in that part of the world.

Senator SYMINGTON. Thank you.

I have one more question, Mr. Chairman.

In your statement, where you discuss the question of contributions to increase the capital of the Inter-American Development Bank, are you talking there about hard loans or soft loans? Specifically, are you talking about loans of from 30 to 40 years, with no interest, and just a carrying charge, with a period of grace for the repayment of capital, or are you talking about a straight business transaction?

Mr. BALGOOYEN. During the hearings it developed that some of the Congressmen were considering proposals for tying the loans of the Inter-American Development Bank—and I am not sure whether they were only hard loans, or both hard loans and soft loans—to the purchase of materials and equipment in the United States with the proceeds of these loans. And during the course of the hearings an example was cited, I believe, of a Chilean borrower who might be able to buy his requirements in Peru cheaper than he could in the United States, and what did I think about that.

My answer was that, No. 1, I thought that in view of the limited borrowing capacity of all the Latin American countries, they should be able to use the funds they borrowed as economically as possible, and get as much for their money as they could. And No. 2, certainly if Chile can buy something in Peru, it assists the attempts that these countries are making toward economic integration. And since we have said that we are in favor of economic integration and industrialization, we certainly shouldn't try to preclude that kind of a transaction.

Senator SYMINGTON. If you make a hard loan, I couldn't agree more. But a soft loan, you might as well give them their money and forget it, don't you think, a 50-year loan, no interest, no repayment of principal, say, for 10 years? We have put a lot of money in that kind of a loan. If you don't specify the money has to be used in the United States, why not get rid of all the bureaucratic costs incident to following the loan, and just give it to them? You would be better off from the standpoint of overhead.

Mr. BALGOOYEN. I am psychologically opposed to soft loans. But you have a situation in Latin America of course, as I have indicated, where they are so far in debt, particularly in dollars, that it is a question of whether they can stand it. And so it becomes a matter of necessity, I am sure, in some cases, to grant this assistance on a soft loan basis. And I fully appreciate the arguments for spending the proceeds of these loans in the United States. Otherwise, as you say, they become gifts. And they are pretty close to gifts anyway and for all we know they may ultimately be gifts.

But at the same time, whether it is a soft loan or a hard loan, if $10 million is loaned to Chile, I would think that we would want the Chileans to buy as much of their necessities with that $10 million as they possibly could, even if they had to buy it in some other country.

Senator SYMINGTON. Thank you, Mr. Chairman.

Chairman BOGGS. Senator Miller, do you have any questions?

Senator MILLER. Thank you, Mr. Chairman.

Mr. McAshan, in your statement you say, "many of the less-developed countries cannot be expected to become fully self-sufficient in foods and fibers." Would you include India in that category?

Mr. MCASHAN. Yes, certainly, I certainly would. India is probably less self-sufficient than many of the other countries.

Senator MILLER. I am not talking about what it is now, I am talking about what it can be. And your statement is that many of the less-developed countries cannot be expected to become fully self-sufficient.

Mr. McASHAN. Well, I should possibly have said, for many, many years, until they change their systems in India, and until they are willing to get rid of some of their prejudices that we are all familiar with. For example, India is one of the greatest producers of peanuts in the world. They extract the oil from those peanuts and use the oil for cooking purposes, but they will not allow the meal to be used for human food, although peanut meal is very high in protein, and is just exactly what their children ought to be fed. They have got to get rid of those kinds of prejudices first.

Senator MILLER. In our food aid program to India, as you probably know——

Chairman BOGGS. I am quite curious; why won't they?

Mr. McASHAN. As I understand it, it is a matter of their religion.

Chairman BOGGS. The meal for peanuts.

Mr. McASHAN. Yes, I don't know why. It is used for fertilizer only.

Senator MILLER. In our food aid program for India, as you probably know, we concentrate on wheat and other food grains. And under their new 5-year program they have, I think, a reasonable basis for hoping that by 1971 or 1972, with a reasonable amount of rainfall, and by breaking the fertilizer bottleneck, which they hope to do, that they can be self-sufficient in food grains. Now, this peanut matter may have some impact. But I would say that it would be very small compared to the food grains problem. And I was wondering whether or not you would accept that 5-year target. Or do you think that that is just a gesture of futility?

Mr. McASHAN. No, I wouldn't call it futile in any respect. I hope they do, but I don't know that they can.

Senator MILLER. We all hope that they do. But when you were talking about the fact that you expect many of these countries will not be able to become self-sufficient for many, many years, you included India in that category?

Mr. McASHAN. Yes. And the rate of their population increase will require a terrific improvement in their agriculture to keep pace with it.

Senator MILLER. There is no question but what it will require improvement. But with the hybrid seeds and with fertilizer, and with the tremendous amount of national effort with respect to irrigation and water wells, and with a reasonable degree of rainfall, why would you think it would be many, many years before India could become reasonably self-sufficient, certainly in food grains?

Mr. McASHAN. As much as anything from their past record.

But I certainly hope that they do, sir. It would be great if they do. The only point that I was making was that they could buy our wheat from our farmers with some of the other materials that they might do better with, that they might be better equipped to produce and export and pay for their wheat. That would be my only point.

Senator MILLER. Well, if they have the hybrid seeds and the fertilizer and the land and the water, why should we not expect them to grow their own food grain instead of looking to us to supply it?

Mr. McAshan. I certainly hope they will. But their record is not good in that respect, Senator.

Senator Miller. Well, their record in some areas where they have had rain, and where they have been adopting the hybrid seeds and fertilizers, has indicated a dramatic progress, and Ford Foundation people who have been over there for 10 years are very much encouraged by the progress in just the last 2 or 3 years with hybrid seeds.

Mr. McAshan. Yes. And they are using these hybrid seeds from Mexico that the Ford Foundation and Rockefeller Foundation helped develop down there. And certainly that is good. I am all in favor of it.

Senator Miller. So is everybody else. But I am trying to find out what you mean by saying that you can't expect—I assume that you meant you can't expect India, for example, to become self-sufficient in foods and fiber for many, many years. I am wondering if you take a dim view of that 5-year target. I personally do not, unless there is a shortage of rainfall. But I like to think that India if it implements its programs and makes progress, particularly as dramatically as it has in the last year and a half, would not be one of those less-developed that you refer to.

Mr. McAshan. I agree with you 100 percent, Senator, that we should do everything that we can in helping them implement their programs, and to even require it in return for our giving them this wheat in the meantime.

Senator Miller. We are doing that. But I may say, I don't share your pessimism, that India is one of those less-developed countries that cannot be expected to become self-supporting for many, many years. By many, many years you are talking about 10, 15, 20, 30, or 40 years?

Mr. McAshan. Well, I hope you are right.

Senator Miller. I hope so, too.

You say if India can get more wheat by exporting textiles and buying wheat, then by attempting to raise wheat is India not reducing its efficiency in world markets? Assuming certain things, I suppose the answer would be obvious. Are you implying that India can get more wheat by exporting textiles such as jute or cotton instead of growing wheat? Are you implying that?

Mr. McAshan. I believe that, yes, sir. And they do a fine job of exporting heavy cotton goods all over the Orient.

Senator Miller. I know that. But are you implying that they should accentuate that and let the growing of additional rice and wheat go by the board?

Mr. McAshan. I was really using that as an example only of the benefits of trade, Senator Miller. But it is true that India is a very fine producer and exporter of cotton textiles.

Senator Miller. That is so. But as you probably know, Congressman Pogue was quite insistent last fall that India stop using some of its very fertile land for growing cotton and replace it with wheat or food grains so that they could more adequately supply their food needs, and if they needed cotton they could buy from us, buy cotton from us. Now, that seems to me to be directly opposite to what you are advancing here.

Mr. McAshan. No, sir, that is the same principle I am talking about. If we can do it better and they can do it better, then we ought to trade.

Senator Miller. But your example is directly opposite to that.

Mr. McAshan. My example was just used for illustration.

Senator Miller. You said in your statement that you did not know what President Johnson meant by "temporary preferential tariff advantages for the developing countries" in his Punta del Este talks. It seems to me that he went further than that. He was talking about temporary preferential tariff advantages for the developing countries and extended not only by the United States, but by other developed countries. And now, do you recognize that that was a sine qua non in his discussion, that it wouldn't be the United States alone, but it would be the United States in consonance with other developed nations which would extend these advantages?

Mr. McAshan. Yes, indeed. And I am sure that there is deep feeling in South America against the so-called Associated Trade Area countries that the European Economic Community favors in Africa at the expense of, say, the Latin American countries who are also producers of tropical products and are trying to get in that same market. It would certainly be in order to require that Latin America receive the same kind of treatment in Europe, if we are able to do so, as those associated African nations.

Senator Miller. You are suggesting, then, that the United States unilaterally get into this preferential tariff advantage, are you?

Mr. McAshan. While we were limited to a Western Hemisphere Common Market of which we were a party, yes, sir. If we are talking now about a long-range trade policy throughout the world I agree with you 100 percent that we ought to bring in the EEC and the EFTA as well if we can.

Senator Miller. Thank you.

Chairman Boggs. I have a few questions, but first I would like to hear from Dr. Danielian.

Would you give us your statement, Doctor?

STATEMENT OF N. R. DANIELIAN, PRESIDENT, INTERNATIONAL ECONOMIC POLICY ASSOCIATION

Mr. Danielian. Mr. Chairman, I appreciate the opportunity to appear before this committee which has taken on the important task of reviewing U.S. trade policy, particularly because I have just returned from an 8-week trip to major European centers investigating this very subject. The suggestions contained in this brief paper are based on extensive studies of postwar trends in international trade and payments, backed by the experience of our member companies which comprise a representative segment of the American economy, production, and employment. These companies are vitally concerned with the success of our foreign economic policy and the interest of free world security and prosperity. At the outset I think it important to state that they are "outward looking" international business corporations with worldwide operations; therefore, they have a stake not only in the growth and vitality of our own country but in that of other free world countries as well.

New Factors Influencing the International Economy

New forces and conditions have emerged in the world since the reciprocal trade agreements program was adopted, particularly since World War II, which require a review of U.S. foreign economic policy. The most important of these factors are:

1. The grouping of important trading partners of the United States into blocs; for example, the European Economic Community (EEC), the European Free Trade Association (EFTA), and the Latin American Free Trade Area (LAFTA) which is to be merged into a Latin American common market, and other similar plans stirring in the Pacific, even in Africa, requires a reassessment of the basic premises of U.S. foreign economic policy.
2. Communist countries have ambitions to become major factors in world trade and investment under the principle of competitive coexistence, and they have asked for unconditional most-favored-nation treatment.
3. There is a rise of economic nationalism in the world which has hampered efforts to liberalize trade.
4. The important role that international corporations have come to play in world trade and investment is a new phenomenon, not yet clearly understood.
5. The importance of advanced technology and the conditions for its transfer in the course of world trade and investment are receiving worldwide attention and must be considered in any future trade policy.
6. The character of U.S. trade, both imports and exports, has changed radically since World War II, and the significance of this change for future trade policy needs serious study.
7. The demands of less developed countries for trade concessions from the developed countries pose new problems.
8. U.S. balance-of-payments deficits and their relation to trade policy have not received adequate attention.

Summary of Conclusions

Our analysis of the meaning of these changed conditions and emerging trends leads us to the suggestion that the United States should:

1. Adopt a conditional most-favored-nation policy in relation to developed countries and trading blocs, East and West alike.
2. Seek review and amendment of some of the basic postwar agreements, such as GATT, to conform with current realities.
3. Proceed with the organization of a North Atlantic Free Trade Association, starting with Canada, and later extending it to the United

Kingdom and other EFTA countries, when—as seems probable—their bid for membership in the EEC fails. Provision should be made for associate membership for the Latin American common market, Australia, New Zealand, Japan, and others under clearly defined conditions. Within the framework of this North Atlantic Free Trade Association, we should be prepared to offer less-developed countries unconditional most-favored-nation treatment.

4. Codify the rules and regulations under which government-generated technology is made available abroad. This may require legislation to define and limit the conditions under which the results of government-financed research and development can be transferred.

5. Revise our antitrust laws and our tax laws and regulations so as to permit American business to compete more effectively abroad.

6. Avoid the cumbersome and rigid commodity agreements proposed by the less developed countries, because they will result in uneconomic allocation of resources. Instead, we should encourage them to direct their resources into more productive employment.

Let us now consider the reasons for these recommendations.

Trading Blocs

In the negotiation of GATT, the United States accepted the principle of unconditional most-favored-nation treatment. But in article 24, we agreed to a provision which made possible trade blocs, permitting trade concessions to their members but not to outsiders, a patent violation of the principle of unconditional most-favored-nation treatment. GATT has really blurred the definition of a nation as understood under trade treaties. There are now some nations more favored than others. We must either redefine the meaning of the word "nation," or develop a set of new principles which apply to trading blocs.

In the recently concluded Kennedy Round of trade negotiations, the EEC demonstrated how difficult trade blocs can be in multinational negotiations based on the unconditional most-favored-nation principle. They held up the negotiations for years while they put their own affairs in order. When they finally came to the negotiating table they made it clear that the internal agricultural policy, a highly protectionist one, which they had agreed on while making everybody else wait, was more important than the general liberalization of world trade and was not negotiable.

The importance of the discrimination inherent in trade blocs to the growth and distribution of world trade can be seen in tables 1 and 2. Since the EEC was formed under the Treaty of Rome in 1958 to 1966, world exports by value have just about doubled. The United States increased its exports by about 70 percent. However, the EEC saw its exports, including intra-EEC trade, go up by 130 percent. But, its exports to the rest of the world kept pace at about the world average, doubling during this period, while exports among member countries within the EEC trebled.

TABLE 1.—GROWTH OF TRADE (EXPORTS) BY REGION AND SELECTED COUNTRY, 1953–66

[In billions of dollars and percentages [1]]

Year	Total world trade [2]		European Economic Community: Extra-EEC		European Economic Community: Intra-EEC		European Free Trade Association: Extra-EFTA		European Free Trade Association: Intra-EFTA		United Kingdom		United States		Canada		Latin America [3]		Japan	
	Amount	Percent, 1960=100	Amount	Percent, 1960=100	Amount	Percent, 1960=100	Amount	Percent, 1960=100	Amount	Percent, 1960=100	Amount	Percent, 1960=100	Amount	Percent, 1960=100	Amount	Percent, 1960=100	Amount	Percent, 1960=100	Amount	Percent, 1960=100
1953	$74.1	66	$10.1	50	$4.0	39	$10.1	72	$2.3	68	$7.5	78	$15.8	85	$4.2	81	$7.6	74	$1.3	31
1954	76.9	68	11.1	58	4.7	47	10.5	75	2.4	73	7.8	82	15.0	77	4.0	79	7.9	74	1.6	41
1955	84.3	74	12.7	66	5.6	55	11.6	81	2.6	76	8.5	87	15.4	79	4.4	85	8.0	78	2.0	54
1956	93.6	81	13.6	68	6.4	61	13.0	88	2.8	79	9.3	93	18.9	93	4.9	92	8.6	86	2.5	64
1957	100.5	86	15.3	75	7.2	66	13.7	90	3.0	83	9.7	95	20.7	98	5.1	93	8.7	89	2.9	72
1958	95.9	84	15.9	80	6.9	66	13.3	89	2.8	81	9.3	91	17.8	85	5.1	93	8.2	90	2.9	74
1959	101.4	91	17.1	90	8.2	82	14.0	94	3.0	88	9.7	95	17.4	85	5.4	96	8.3	96	3.5	88
1960	112.9	100	19.5	100	10.2	100	15.0	100	3.5	100	10.3	100	20.4	100	5.6	100	8.6	100	4.1	100
1961	118.2	105	20.4	103	11.9	115	15.7	103	3.8	109	10.8	102	20.6	101	5.8	109	8.7	101	4.2	107
1962	124.1	111	20.6	104	13.6	131	16.4	107	4.1	116	11.1	104	21.3	104	5.9	113	9.2	110	4.9	103
1963	135.3	119	21.6	108	15.9	152	17.6	116	4.6	122	11.9	108	22.9	114	6.5	124	9.7	113	3.4	147
1964	151.9	131	24.2	118	18.4	172	18.7	118	5.3	145	12.3	113	26.0	128	7.7	145	10.6	116	6.7	181
1965	164.4	141	27.1	131	20.8	193	20.7	128	5.8	156	13.7	119	27.0	129	8.1	149	11.1	121	8.5	235
1966	180.5	153	29.4	142	23.2	214	22.2	132	6.3	162	14.7	123	29.9	141	9.6	170	11.9	129	9.8	265

[1] Percentages are based on volume of trade data calculated in million metric tons.
[2] Excluding Soviet bloc countries.
[3] Including Cuba.

Source: European Economic Community, Monthly Statistics, 1967, No. 2, p. 17.

TABLE 2.—GROWTH OF TRADE (IMPORTS) BY REGION AND SELECTED COUNTRY, 1953–66

[In billions of dollars and percentages [1]]

Year	Total world trade [2]		European Economic Community: Extra-EEC		European Economic Community: Intra-EEC		European Free Trade Association: Extra-EFTA		European Free Trade Association: Intra-EFTA		United Kingdom		United States (f.o.b.)		Canada (f.o.b.)		Latin America [3]		Japan	
	Amount	Percent, 1960=100	Amount	Percent, 1960=100	Amount	Percent, 1960=100	Amount	Percent, 1960=100	Amount	Percent, 1960=100	Amount	Percent, 1960=100	Amount	Percent, 1960=100	Amount	Percent, 1960=100	Amount	Percent, 1960=100	Amount	Percent, 1960=100
1953	75.9	62	11.0	51	4.0	39	12.5	62	2.4	68	9.4	71	10.9	73	4.4	84	6.5	79	2.4	44
1954	79.3	66	12.1	57	4.6	47	13.1	66	2.6	73	9.5	72	10.3	68	4.1	79	7.4	93	2.4	46
1955	89.2	74	13.7	64	5.6	55	15.1	75	2.8	76	10.9	80	11.4	76	4.6	89	7.5	93	2.5	49
1956	98.5	79	16.0	72	6.3	61	15.8	76	3.0	79	10.9	80	12.7	82	5.6	107	7.9	96	3.2	61
1957	108.2	84	17.8	78	7.0	66	16.9	80	3.2	83	11.4	83	13.2	83	5.7	102	9.3	110	4.3	77
1958	101.4	83	16.1	79	6.8	66	15.7	81	3.0	81	10.5	83	13.2	87	5.4	93	8.5	102	3.0	63
1959	106.5	89	16.2	83	8.1	82	16.8	88	3.2	88	11.1	88	15.4	103	5.7	104	7.9	95	3.6	80
1960	119.1	100	19.4	100	10.2	100	19.4	100	3.6	100	12.7	100	15.0	100	5.7	100	8.4	100	4.5	100
1961	124.3	104	20.5	106	11.7	115	19.6	102	4.0	109	12.3	98	14.6	98	5.7	102	8.7	103	5.8	131
1962	131.7	112	22.4	118	13.4	131	20.4	107	4.2	116	12.6	101	16.2	112	5.9	106	8.8	107	5.6	125
1963	143.1	120	24.7	130	15.7	152	21.7	112	4.7	122	13.5	105	17.0	117	6.1	106	8.7	107	6.7	148
1964	160.0	132	26.9	139	18.0	172	25.6	121	5.5	145	15.4	117	18.6	124	6.9	121	9.6	115	7.9	170
1965	174.2	142	28.6	146	20.4	193	26.1	130	6.1	156	16.1	118	21.3	140	8.0	139	9.6	115	8.1	173
1966	190.9	155	30.7	156	22.9	214	27.2	([4])	6.7	([4])	16.7	121	25.4	([4])	9.1	([4])	([4])	([4])	9.5	208

[1] Percentages are based on volume of trade data calculated in million metric tons.
[2] Excluding Soviet bloc countries.
[3] Including Cuba.
[4] Not available.

Source: European Economic Community, Monthly Statistics, 1967, No. 2, p. 16.

Over the same period, imports of the United States doubled. Those of the EEC increased by 2.3 times. Here again, however, EEC's imports from the rest of the world grew at about the world rate, while imports from member countries trebled.

It is clear that the discriminatory arrangements possible in such a trade grouping make it possible to increase trade among the members while restricting the ability of those outside to compete.

We will not be able to deal effectively with such trading blocs as the EEC under the unconditional most-favored-nation principle. Letting them have the advantage of every concession we make to any other member of GATT leaves us with no basis for bargaining hard on important items of discrimination. We will have to come to bilateral negotiations with such groups on a conditional most-favored-nation basis if we are to hold our own.

East-West Trade

The growth of trade between the Communist countries of Eastern Europe and Western Europe and Japan, and the clearly demonstrated interest of all the parties to see it increase further, make it obvious that we must anticipate the time when Communist countries become important factors in world trade and, perhaps, on a one-way basis, investment as well. They have expressed an interest in normalizing trade relations with the United States: they ask access to our markets on an unconditional most-favored-nation basis; they want to buy up-to-date U.S. technology; they want access to U.S. credit sources. Our Government has responded favorably on many occasions.

It is to be hoped that conditions may so develop that these goals can be realized. In its proper context we shall have some suggestions along these lines. But here we must consider the implications for U.S. trade policy of such developments.

I am aware of the fact that the administration is recommending "conditional" most-favored-nation treatment for these countries, subject to bilateral trade agreements for short durations, renewable and cancellable for cause. But this does not meet their real desire for nondiscriminatory treatment.

Ultimately we must universalize our trade policy. But it is not feasible to extend unconditional most-favored-nation treatment to State-controlled economies.

They need not resort to tariffs or other indirect devices to control imports nor worry about cost of production in exports. It is difficult to envisage how, in such States, industrial property rights or investments, should they be allowed, could be protected, since the citizens of these countries have such limited rights in these matters. The only effective means of protection will lie in our ability to bargain hard, and if need be, to withdraw concessions. This could not be readily done under the unconditional most-favored-nation principle. Here again, we must restort to bilateral negotiations under the conditional most-favored-nation principle, with emphasis on reciprocity.

NATIONALISM

Nationalism, particularly in economic matters, is rising all over the world, in developed and developing countries alike. This can be seen in the efforts of the EEC, under French pressure, to attain agricultural self-sufficiency; local content requirements in most South American countries; and preferential treatment of indigenous trading companies in Japan. These are only a few examples. Continued adherence to the unconditional most-favored-nation principle leaves us without any adequate means of dealing with these increasingly important nontariff barriers to the growth of our trade. In response to such actions, emphasis must be placed on nondiscriminatory nationality treatment and reciprocity. To enforce this, the United States must make trade concessions conditional on some of these impediments being removed.

INTERNATIONAL CORPORATIONS

The rise of international corporations and their importance to world production and trade is inadequately understood. They are responsible for a substantial portion of our exports, and they have proved an effective means of spreading technical competence and economic progress.

International trade and investment are inextricably related. They are risky and expensive, requiring commitment of time, money and personnel, as well as experience in dealing with other peoples and governments. Traditional attitudes about small- verus large-scale business, however applicable at home, do not necessarily apply in world trade. We must help small businesses to pool their resources in foreign trade, and help the larger ones to do a more effective job. This may require a good hard look at our antitrust laws as they apply to foreign operations, and to tax laws and regulations as they apply to export business.

TECHNOLOGY

All the world, East and West, is aware of the advantages of technological progress as applied to large-scale business. In fact, most of the world envies U.S. industry, not only for its inventiveness, but also for its daring to take risks and apply up-to-date methods in production and marketing. This is the greatest comparative advantage the United States possesses in economic competition. But we cannot be complacent. There are all kinds of suggestions under discussion for the transfer of this technology to other countries. Western Europe, Eastern Europe, and the less-developed countries all want access to this technology and know-how. This is now a major preoccupation in Europe, and engages the interest of NATO and OECD, as well as the COMECON and UNCTAD countries. And, of course, once they get it they expect to compete with us.

Much of this technology is in private hands, with proprietary rights which cannot be divested. In certain fields, however, such as atomic power, electronics, communications, space, computers, defense production, health and agriculture, the U.S. Government is in possession of valuable rights. It is in these areas where suggestions have been made for intergovernmental negotiations. What we do with these rights and how we dispose of them will have a profound effect on the competitive position of the United States. Here again, there is a whole range of economic and legal problems that remain unexplored. A codification of U.S. Government practice and legislative criteria as to when, where and under what conditions the U.S. Government can dispose of such rights abroad is urgently needed.

Changing Patterns of U.S. Trade

A review of recent trade statistics of the United States shows that we have become primarily suppliers of agricultural raw materials, chemicals, raw and semifinished products, and machinery. We have become importers of end-use consumer products. These are shown in tables 3, 4, 5, 6, and 7.

This results from two factors. First, other countries exclude, by tariffs, quotas, variable levies, internal taxes and other devices, many of those products which we can produce economically; and, second, other countries are, in many products, simply lower-cost producers than we are. We cannot accept this challenge indefinitely unless we are given a fair chance to compete where we have some advantages. Here again, a policy of reciprocity based on conditional most-favored-nation treatment is necessary.

TABLE 3

[In millions of dollars]

	U.S. trade in food and related products, beverages, tobacco, and live animals, 1946–66 [1]			U.S. trade in chemicals, 1946–66 [1]		
	Exports	Imports	Balance	Exports	Imports	Balance
1946	2,553	1,406	1,147	471	85	386
1947	3,423	1,740	1,683	819	94	725
1948	2,871	2,003	−868	760	98	662
1949	2,587	2,087	500	755	106	649
1950	1,757	2,642	−885	711	152	559
1951	2,793	3,007	−214	972	175	797
1952	2,482	3,000	−518	802	208	594
1953	2,216	3,186	−970	799	252	547
1954	2,057	3,278	−1,221	986	260	726
1955	2,502	3,101	−599	1,073	270	803
1956	3,189	3,176	13	1,229	276	953
1957	3,165	3,467	−302	1,457	668	789
1958	2,952	3,646	−694	1,405	800	605
1959	3,172	3,649	−477	1,543	874	669
1960	3,458	3,491	−33	1,763	818	945
1961	3,716	3,521	195	1,787	732	1,055
1962	3,992	3,766	226	1,843	765	1,078
1963	4,421	3,942	479	1,922	705	1,217
1964	4,971	4,097	874	2,358	707	1,651
1965	4,521	4,013	508	2,402	781	1,621
1966	5,191	4,590	601	2,676	957	1,719

[1] 1946–56 data not fully consistent with 1957–66 data due to use of different series.

Source: U.S. Department of Commerce, Balance of Payments Statistical Supplement (revised edition) and Overseas Business Reports.

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TABLE 4

[In millions of dollars]

	U.S. trade in mineral fuels and related materials, 1946–66 [1]			U.S trade in crude materials, inedible, except fuel, 1946–66 [1]		
	Exports	Imports	Balance	Exports	Imports	Balance
1946	752	162	590	1,058	1,836	−778
1947	1,275	260	1,015	1,300	1,968	−668
1948	1,149	432	717	1,126	2,282	−1,156
1949	870	485	385	1,508	1,709	−201
1950	777	595	182	1,601	2,758	−1,157
1951	1,392	601	791	1,957	3,917	−1,960
1952	1,303	690	613	1,559	2,998	−1,439
1953	1,041	762	279	1,244	2,520	−1,276
1954	970	829	141	1,649	2,170	−521
1955	1,141	1,034	107	1,555	2,639	−1,084
1956	1,508	1,282	226	2,022	2,696	−674
1957	1,814	1,556	258	2,533	2,766	−233
1958	1,071	1,641	−570	1,708	2,365	−657
1959	853	1,559	−706	1,823	2,925	−1,102
1960	814	1,571	−757	2,772	2,881	−109
1961	763	1,690	−927	2,761	2,550	−211
1962	799	1,825	−1,026	2,209	2,654	−445
1963	946	1,874	−938	2,472	2,672	−200
1964	911	1,996	−1,085	2,952	2,841	109
1965	947	2,222	−1,275	2,856	3,034	−178
1966	978	2,262	−1,284	3,076	3,266	−190

[1] 1946–56 data not fully consistent with 1957–66 data due to use of different series.

Source: U.S. Department of Commerce, Balance of Payments Statistical Supplement (revised edition) and Overseas Business Reports.

TABLE 5

[In millions of dollars]

	U.S. trade in machinery, 1946–66 [1]			U.S. trade in transportation equipment, 1946–66 [1]		
	Exports	Imports	Balance	Exports	Imports	Balance
1946	1,242	32	1,210	1,044	5	1,039
1947	2,303	54	2,249	2,155	6	2,149
1948	2,202	107	2,095	1,437	35	1,402
1949	2,296	114	2,182	1,129	13	1,116
1950	1,951	123	1,828	1,004	24	980
1951	2,462	186	2,276	1,384	40	1,344
1352	2,719	251	2,468	1,231	61	1,170
1953	2,746	246	2,500	1,273	58	1,215
1954	2,612	240	2,372	1,464	57	1,407
1955	2,860	277	2,583	1,586	97	1,489
1956	3,568	354	3,214	1,794	199	1,595
1957	3,976	431	3,545	1,784	431	1,353
1958	3,653	481	3,172	1,574	670	904
1959	3,685	673	3,012	1,497	957	540
1960	4,093	721	3,372	1,911	742	1,169
1961	4,488	786	3,702	1,651	573	1,078
1962	4,871	949	3,922	1,719	719	1,000
1963	5,065	1,036	4,029	1,744	751	993
1964	5,998	1,304	4,694	2,023	901	1,121
1965	6,906	1,799	5,107	3,214	1,148	2,066
1966	7,681	2,693	4,987	3,484	2,138	1,349

[1] 1946–56 data not fully consistent with 1957–66 data due to use of different series.

Source: U.S. Department of Commerce, Balance of Payments Statistical Supplement (revised edition) and Overseas Business Reports.

TABLE 6.—U.S. TRADE IN OTHER MANUFACTURED GOODS AND OTHER TRANSACTIONS,[1] 1946–66[2]

[In millions of dollars]

	Exports	Imports	Balance		Exports	Imports	Balance
1946	2,381	1,501	880	1957	4,095	3,904	−191
1947	3,858	1,728	2,130	1958	3,391	3,561	−170
1948	2,757	2,265	492	1959	3,183	4,776	−1,593
1949	2,644	2,214	430	1960	3,885	4,792	−907
1950	2,020	2,710	−690	1961	3,741	4,805	−1,064
1951	2,854	3,216	−362	1962	3,832	5,572	−1,740
1952	2,956	3,717	−761	1963	4,170	6,024	−1,854
1953	2,822	4,101	−279	1964	4,825	6,753	−1,928
1954	2,988	3,641	−653	1965	4,815	7,522	−2,707
1955	3,448	4,236	−788	1966	5,256	8,636	−3,380
1956	3,873	4,908	−1,035				

[1] The combined total is calculated as a residual prior to 1957.
[2] 1946–56 data not fully consistent with 1957–66 data due to use of different series.

Source: U.S. Department of Commerce, Balance of Payments Statistical Supplement (revised edition) and Overseas Business Reports.

TABLE 7.—U.S. TRADE IN NONFOOD CONSUMER GOODS 1946–66[1]

[In millions of dollars]

	Exports	Imports	Balance		Exports	Imports	Balance
1946	1,075	489	586	1957	1,333	1,524	−191
1947	1,527	374	1,153	1958	1,271	1,710	−439
1948	1,131	461	670	1959	1,274	2,424	−1,150
1949	913	410	503	1960	1,328	2,458	−1,130
1950	808	556	252	1961	1,357	2,200	−843
1951	1,155	693	462	1962	1,400	2,707	−1,307
1952	1,019	715	304	1963	1,513	2,889	−1,376
1953	1,130	802	328	1964	1,715	3,388	−1,673
1954	1,144	830	314	1965	2,402	4,111	−1,709
1955	1,276	1,064	212	1966	2,860	5,808	−2,948
1956	1,314	1,260	54				

[1] 1946–56 data not fully consistent with 1957–66 data due to use of different series.

Source: U.S. Department of Commerce, Balance of Payments Statistical Supplement (revised edition) and Overseas Business Reports.

Ambitions of Less-Developed Countries in Trade Policy

The ambitions of the less-developed countries, as expressed in various forums, require sympathetic consideration. But what we undertake to do must be consistent with our own long-range economic strength and stability and must promise results in a foreseeable future. Commodity agreements are a rigid and uneconomic way of giving foreign aid and unjustifiably impose the cost on a selected group of consumers. They retard the reallocation of resources to more productive and useful enterprises and industries. We have learned from sad experience that more money is not the answer if it gets into the wrong hands or is used the wrong way and for the wrong objectives. Foreign aid with strict application of conditions for self-help, and under conditions which protect our balance-of-payment position, is more sensible, provided the money is spent on worthwhile projects, than commodity agreements or automatic compensatory financing.

Less-developed countries also seek preferential treatment for their exports of raw materials and manufactured goods. This request might best be met by offering them unconditional most-favored-nation treatment under the North Atlantic Free Trade Association proposal.

U.S. Balance of Payments Deficits

The persistent U.S. balance-of-payments deficits require that we consider all these factors. Clearly we are not earning enough abroad to do all the things we, as a nation, want to do. Unless the factors mentioned above are taken into account, we will not be able to earn the required sums to carry out our national objectives abroad.

The stark fact is that U.S. commercial exports are hardly enough to pay for our commodity imports. If you deduct the foreign aid induced exports and the military hardware sales from export figures, it is doubtful that purely civilian commercial imports and exports are in balance. It is the income on investments and services that is paying for a substantial portion of our Government expenditures abroad. Unfortunately, this is not enough. The rest is financed by gold exports and borrowings.

What we need, therefore, is an international incomes policy and a foreign incomes and expense budget. All the factors mentioned above must be considered in this scheme. What trade policy will increase our income? What policies toward international corporations, their exports and investments abroad, will increase their contribution to international income? What policies in the transfer of technology will enhance our earnings and competitive position? What policies toward Eastern countries and less-developed countries will improve economic and political conditions without undermining our economic strength and stability?

I hope this committee will consider our suggestions and also add its prestige to the proposal that the Administration prepare annually, a foreign incomes estimate, and a foreign incomes and expense budget, and adopt constructive policies to enhance the income and balance the international budget.

Mr. Danielian. In completing, Mr. Chairman, I hope it is understood that this paper, which was prepared in Vienna and over the Atlantic this weekend as I was flying back to this hearing, is a personal statement. It has, I believe, the general sympathetic agreement of most of our member companies. But these suggestions should really stand on their own. And I hope that the committee will give careful consideration particularly to this last suggestion, which, I think, is long overdue in the management of our international economic affairs.

Thank you very much.

Chairman Boggs. Thank you very much, Doctor.

Mr. Gilbert, last week we had Mr. Younger here, formerly British Minister of State, and now Director of the Royal Institute of International Affairs. In his testimony he discussed the so-called technological gap in Europe, and he felt that we should pay more attention to this problem. What is your feeling about that?

Mr. Gilbert. I think this is a so-called problem that has received a tremendous amount of attention. But I haven't noticed that much of the attention really goes to the problem. It seems to me that the technological gap, the extent that it does exist, is a gap in management. Research and science are international, and they flow across the world without being hampered by boundaries. I think what American industry has which is envied by the European is the capacity, fairly quickly, to take a scientific development and through management and engineering move it into production. We are ready to throw away old processes where the equipment is still capable of producing if we can see a way to do it better. And this, I think, has not been the characteristic of European industry. They have tended to want to hold on to everything that still works, repair it and repair it and repair it And the management is not directly oriented toward the techniques, if you like, of moving from invention to product with dispatch.

I don't know how this can be taught. There is a great deal of effort, as you know, over the years. Our graduate schools of business administration have staffed European colleges working in the same area. And there is practically a branch of the Harvard Business School at the Graduate School of Business Administration in Australia. And I think our educational institutions have made a tremendous effort to move out insofar as techniques can be taught. But I believe myself that it is a question of management's point of view, some bonus, some capacity that somehow or other I think American industry by and large has developed.

Chairman BOGGS. Last week we had Ambassador Roth here. And he said that he is beginning a study at the request of the administration on whether or not U.S. exporters need additional incentives, and also the relationship which exists between foreign investment in exports by American manufacturers. In connection with the last problem, do you mind commenting on the widespread view held by American industry that continued restrictions on U.S. foreign investment abroad will over the long run harm the growth of U.S. exports?

Mr. GILBERT. I would expect that this would be probably correct. I am not certain at this point how much real restriction on foreign investment has resulted from the voluntary payments program. I think that it has been a great stimulus to use the European capital market and avoided an excessive movement of funds from this country particularly to the European area.

I haven't seen any evidence of any real productive, proposed productive investment by an American company which has, in fact, been stopped by the so-called voluntary program. I think it has made many more people conscious of the fact that a private decision can have an effect on national problems. And to that extent I would say that the results of the so-called voluntary program have been good.

Continued for too long, and if allowed to trend over into a controlled situation rather than a voluntary restraint, then I think it holds real dangers, not only for international business, but for the national economy. And, of course, there is always a minority of people who get into government who think the government can run things better than the people who run them. If they ever came into ascendancy, I think we would have some very serious national problems resulting from controls of foreign investment.

I think it is clear that, maybe just by coincidence, or maybe it is just a sign that people are energetic and competent in the area, I think it is clear that a surprisingly large portion of American exports are conducted by the international companies which also invest abroad. And certainly to do an effective job. In a world market one cannot be solely an exporter. One does have to have local installations.

For some companies, perhaps, only a well-financed sales company is necessary, and for others, some local manufacturing and some exports are essential. I don't think there is any magic answer to it. And I think business can come up with a better answer on its own peculiar problems than anybody could by a formula.

Chairman BOGGS. Mr. McAshan, would you be good enough to comment on the question of East-West trade which has been discussed here by a number of witnesses?

Mr. MCASHAN. Really, I can do no more than to endorse the report which was brought back by Mr. Blackey last year when he was a member of that committee which visited in Central Europe and Eastern Europe and Russia.

Senator SYMINGTON. Who is Mr. Blackey?

Mr. MCASHAN. Mr. Blackey is the chairman of the Caterpillar Tractor, I believe it is, Senator Symington, but he acted as reporter for that group.

Senator SYMINGTON. Thank you.

Mr. MCASHAN. They came back very strongly in favor of opening up a trade particularly with the Eastern European countries, Czechoslovakia, Poland, Hungary and those countries, not only for trade itself, but so that those countries could learn more about us and could see the way we lived and could learn what a difference there was between communism and democracy. And at the same time he felt that that would offer a good market, added market for our manufactured articles that we are now exporting today.

Chairman BOGGS. Would any other members of the panel care to comment on it?

Mr. BALGOOYEN. I would like to comment, if I may.

I agree pretty much with Mr. McAshan's statement with regard to the East-West trade. He made the first point that what the East is interested in, many of the Communist States, is in buying U.S. technology. I think we all know that as a matter of principle Communists do not believe in world trade as such, they believe in self-sufficiency. The only reason that they are interested in world trade is that they might be able to get something that they couldn't produce themselves, particularly in the way of technology and new processes. And that is what their chief interest is. And I think it is particularly unjustifiable to extend credit terms to Communist countries, because that comes a little bit too close to providing aid to the countries that are doing everything that they can to bring down our private enterprise system, and to cause us difficulties in Vietnam, Latin America, Africa, the Near East, and every place else.

I know that it is a cliche, but it is a very popular one, to say that trade brings peace. I don't think that there is anything in the history of the world that proves that trade necessarily brings peace. I think you could demonstrate just as easily that trade is frequently a cause of conflict and war.

I certainly don't think that we should extend unconditional most favored treatment to state-controlled economies. I don't think that there is any way in which we can be at all sure that we can protect any investment that we may make in state-controlled economies or in Communist countries. And there I agree with Mr. Danielian. And I am very cool toward any effort to increase trade with Communist countries. I think that the Russians have demonstrated in the Vietnam war that they haven't changed their attitude at all toward us. They demonstrated this a year ago—at the Tri-Continental Communist Conference in Havana, where Rashidov, the chief Soviet delegate, was more virulent in his expressions against the United States than were the Red Chinese or Fidel Castro.

So, I think that we are just kidding ourselves to think that the Russians are going to become more friendly and amenable to us by increasing our trade with them.

Chairman Boggs. Mr. Gilbert?

Mr. Gilbert. I have only one comment, which I think is a very practical one.

We talk of extending the most-favored-nation position to the Russians as though the Russians were in a position to be a part of those normal world trading situations. As a practical matter, it is my understanding that the Russians now have agreements with various European countries. Each one of them is a negotiated trade agreement providing balance of trade within the terms of the trade agreement, with specific areas of exports and imports agreed on in advance between England and Russia, for example, and between France and Russia, and between West Germany and Russia. None of these agreements contemplate an excess of foreign exchange being in Russian hands. They are all self-balancing. So, that as a practical matter the only trading that could be done on a realistic basis with a state-controlled economy is that our country can negotiate the import of "X" dollars worth of ABC products into Russia in return for an agreement to import a corresponding dollar amount of Russian products that we wanted.

So, I think that talking loosely in terms of extending the most favored nation tends to raise specters which are quite inconsistent with the practicalities. I think if we are to negotiate an agreement that the Russians would buy $100 million worth of earth-moving equipment, and in return take $100 million of caviar, I don't think this raises the specters that we are talking about.

Chairman Boggs. Dr. Danielian?

Mr. Danielian. I appreciate the support Mr. Balgooyen has given to my statement, but I would like to restate my position as precisely as possible.

I made an inquiry in most of the European countries this summer about their experience in trade with Eastern Europe, speaking with bankers and businessmen and ministers of government. Their reaction was that they preferred to do business, for instance, with the Eastern European countries rather than the undeveloped countries because of their good credit, they performed precisely on the contracts. This is the view of the Swedes and the Danes and the others that I have spoken with, and the Italians, who do a very considerable amount of business with the Eastern European countries.

So, on the basis of economic behavior and international behavior, the business seems to be A 1.

And secondly, there is a definite quantitative limit to the amount of business you can do with these people because of their lack of capacity to export products that we need. In most of the West European countries, as a matter of fact, there is a specific quota arrangement on imports from Eastern European countries, so that the quantities are limited. And this is supported by other studies we have made. I am not really afraid of their ability to compete in our market and to subvert our market, certainly at present. The amount of trade that we might anticipate in the foreseeable future will probably, even granting the trade concessions that they want, be in the range of possibly $200 million a year, in each direction, which is not very much. In the long run the dimensions may be different. So, I think the most-favored-nation principle is not the important thing. The question that we must confront essentially is, what kind of technology are we willing to give to them, and are we willing to extend credit to them to buy this. This is where really the important decision is going to be, not in the area of trade policy, whether it is going to be conditional or unconditional treatment in our markets.

Chairman BOGGS. Thank you very much.

Senator Symington?

Senator SYMINGTON. Thank you, Mr. Chairman.

Mr. Balgooyen, I was astonished at your observations about trade. The Germans were over here several years ago and said that ever since the end of World War II they have been doing their best to trade as much as they can behind the Iron Curtain. As a result, they sell more behind the Iron Curtain and buy more from behind the curtain, than any other country.

We asked how their credit was. They said excellent. We asked how about Yugoslavia? They said Yugoslavia they no longer considered a Communist country economically.

Then before the Secretary of the Treasury, at that time Mr. Dillon, and the Secretary of Commerce, at that time Mr. Hodges, I asked if there was any other country in the world that was not doing its best to sell everything it could behind the Iron Curtain except the United States.

They both said no, that we were the only developed country in the world which wasn't trying to promote its trade behind the curtain.

I asked if the reason that De Gaulle recognized Red China, following the British example, was because that country was not developing its trade as were the British and others.

They both said that was one of the reasons. This is all on the record.

As I understand it, what you want to do in Central and South America is for us to become nationalistic politically. On the other hand, it seems to me that while we as a nation are getting more internationalistic politically, defending everybody all over the world, we are becoming more nationalistic economically, while other countries are doing exactly the opposite. They in turn are becoming more nationalistic politically, furthering their trade in an effort to become more internationalistic economically.

With that premise, I would ask this question. How long do you think we can operate a war in Vietnam that is costing $70 million a day and keep several hundred thousand troops in Germany? This morning the British announced a broad reduction in their troops in the Middle East. We have a good many more Americans in South

Korea than the South Koreans have troops in Vietnam. How long can we continue to finance and defend the so-called free world if we don't try to increase our trade and thereby increase our volume and thereby obtain costs which in turn will increase profits? What is the objection to following all these other countries we think so important that we are giving our lungs you might say, to defend?

Mr. BALGOOYEN. Maybe I wasn't too clear in expressing my views. I will try to restate them first.

As to the Vietnam war, I make no pretense of being a military expert. I don't know how long it is going to continue or how much it is going to cost. So, I am in no position to comment on that.

Senator SYMINGTON. I mentioned this because, in our way of life our taxes can only come from one source, income including profits. It is very clear what country is paying nearly all the gigantic cost of the Vietnamese war.

Mr. BALGOOYEN. Except to say that I don't think that any trade concessions we may make to Russia, or any changes we may make in our policies toward trading with Russia are going to change their attitude toward the Vietnam war. I just don't believe that anything we might do in expanding trade with Russia is going to influence them so far as their overall plan to subvert the private enterprise system and to cause difficulties for the United States throughout the world are concerned.

I would not dispute the statement that has been made that the Western European countries are increasing their trade with the Soviet Union and with the Communist countries in general, and yet their credit experience has been good. That wasn't the point that I was making. The point that I was making, really, is that the Soviet Union, for example, has a great deal to gain by trading with the United States and it isn't necessarily true that both sides benefit equally in a foreign trade transaction. They need our technology very badly and the products of this technology. But as I look over the list of things that the Russians are able to export to us, I don't see anything that we need very much unless you consider gold something that we need, and perhaps we do. I don't know what the future of gold is. But I think that it is an unequal trade at best. And I agree with Mr. Danielian, that there isn't a great deal of volume to it anyway you look at it.

And I want to make it clear, too, that when I supported Mr. Danielian's statement I realized that I was going further than he did, and I don't want to be unfair to him, because I am sure he wouldn't take the rigid position on East-West trade that I am taking.

Senator SYMINGTON. Following your reasoning in specifics, every country in the world has heavily increased its resources in the last 15 years, except the United States, the free world countries; some as high as over 500 percent. The only country that has lost has been the United States—nearly 50 percent. Another country—Canada—would have lost if it hadn't made sales which ran into billions—wheat for gold to Russia and China. Do you think it wrong for the United States to sell wheat or cotton for gold to China or Russia if it has heavy stocks on hand? Do you think the debits overbalance the assets in any such transaction?

Mr. BALGOOYEN. First, I am not quite sure as to what you mean when you say every other industrial country has increased its resources while we have decreased our resources by 50 percent. If you are speaking about resources in general, I don't think that that statement could be supported. But if you are talking about foreign exchange receipts or international balance of payments then it is true that our international balance of payments has suffered in recent years, but not because of trade, since we have had a very favorable export balance during all these years. It is because of loans and foreign aid and investment and by short-term international capital movements which have tended to favor the Western European countries, mainly because their interest rates have been higher.

Senator SYMINGTON. I am talking about gold, current assets, not about the gross national product, which, as you know, is a very deceptive figure against which to justify your fiscal and monetary position.

Mr. BALGOOYEN. As far as gold is concerned I certainly couldn't dispute the fact that we have lost gold to the rest of the world. But as I say, it has not been because of foreign trade, because we have a very favorable foreign trade balance, it is because of our policies toward the rest of the world economically and militarily.

You mentioned Vietnam. And that is one drain on our resources. And our aid programs throughout the world are obviously another.

And then we have these international capital movements that we are all familiar with.

So, it certainly isn't a question of trade, because we have been maintaining a very favorable trade balance in every recent year.

Chairman BOGGS. Mr. Balgooyen, just one question.

You have very heavy investments in Latin Ameica. What is your feeling about the area generally? Do you feel that we have been successful there?

Mr. BALGOOYEN. As is somewhat apparent from my testimony, I feel that we haven't been as successful as I would like to see us be in our policies toward Latin America. I think, however, that as our policy is evolving, the trend is good. I think that, in general, the objectives of the Punta del Este Conference were excellent. And I think, also, that some of our expectations were too great. I was at the Punta del Este meeting, and I was quite disturbed by some of the statments that were made by our people that indicated, for example, that by means of the Alliance for Progress illiteracy could be eliminated in Latin America in 10 years, which, of course, is utterly ridiculous.

But I think that we are giving increasing attention to Latin America. And I think we realize more certainly than we did a generation ago that our national interests are intimately tied in with inter-American affairs, and with the development of Latin America.

Unfortunately, the gap that separates the Latin American countries from the industrialized countries is not being narrowed as we hoped that it would be. And one of the reasons, as I have indicated, is that Latin America can hardly expect to industrialize unless it is able to buy imported machinery and equipment from the industrialized countries. And their foreign exchange receipts from exports just don't allow them a margin—in fact, there is no margin, so far as their trade with the United States is concerned, where they have a deficit. They can't import the equipment that they need, nor the technology that they need. And that is a matter of serious concern.

I think that in the last few years Latin America in general has made quite a bit of progress, in that some of the principal countries are doing things now in the field of economic policy that have long been overdue. And I can see improvement in a number of countries. I think it is particularly marked in the Central America area where they have a Central American Common Market. And the statistics certainly bear that out. Mexico, of course, is an outstanding example of a Latin American country which has made tremendous progress, much faster than the industrialized countries in recent years.

So that there isn't any question that the Latin American countries, if given a certain amount of political and economic stability, can make progress. And I certainly am in favor of the United States doing whatever it can to assist them toward that end.

Chairman BOGGS. Senator Miller, do you have any further questions?

Senator MILLER. Yes; thank you, Mr. Chairman.

Mr. Danielian, it is good to see you before the committee. And I appreciate your very fine statement.

In it you say "we will have to come to bilateral negotiations with such groups on a conditional most-favored-nation basis if we are to hold our own."

Is there any implication in that statement that we need to pass certain legislation here in Congress?

Mr. DANIELIAN. Yes. I think when the time comes, when the administration has prepared recommendations, there will have to be very serious consideration given to such modification of policy and legislative provision to give effect to the conditional most-favored-nation approach to the trade negotiations with other trading blocs.

Senator MILLER. There have been recommendations for foreign trade legislation to continue the authority, or at least some of it, of the Trade Expansion Act. Would that be the appropriate place to make these legislative changes or provisions which you are recommending?

Mr. DANIELIAN. I have been away for 2 months, and I only came back Sunday. And I do not know the nature of these recommendations. And some of the time I was on the other side of the so-called curtain. All last week, for instance, I was in Rumania, in Bucharest. And so I am not aware of the nature of these recommendations. I would have to look at the legislation proposed to see if there is a place for an opportunity to include this policy in a specific form. I think that the sooner we get around to this concept the better for us, because I don't see how we are going to negotiate, for instance, a reduction of nontariff barriers, which seems to be one of the current interests, on a multilateral, 60 or 100 nation, basis. We just simply have got to have negotiating authority which makes it possible for us to talk to the Common Market, for instance.

Senator MILLER. I think you have made a very strong case for it.

And if there are any legislative recommendations which you might have, I think that some of us would be very happy to receive them.

Mr. DANIELIAN. I would be glad to come back at the proper time when the legislation is before the Congress.

Senator MILLER. When you talk about the conditional most-favored-nation principle, what do you mean by that? You give a hint on what you mean when you talk about "conditional" on some of these impediments being removed, such as internal tax matters and other barriers. Is that what you are getting at, when you say "conditional most-favored-nation principle" you mean conditional from the particular country removing or eliminating or modifying some of these internal impediments?

Mr. DANIELIAN. Yes; with the world really being regrouped into larger bargaining units, what this would mean is bilateral negotiations between, say, the United States and EEC, and the United States and EFTA, and the United States and the Latin American Common Market. On the basis of consideration given and reciprocal concessions made, we will grant them most-favored-nation entry to our markets. In other words, the end results would still be free trade, and a more generalized, more inclusive trading community. But people would get into the club only in consideration of having paid a commensurate fee in the way of concessions that have been made reciprocally. Under our present system if we give a tariff reduction to Iceland, however valuable that may be to us and to them, that tariff reduction s available to everybody in the world—the Common Market, Japan and everybody else. That somehow doesn't seem to be quite fair, particularly in view of our present balance-of-payments condition, and the changing pattern of trade which doesn't suggest, in this great Nation of ours, with its technological advance, that the competitive strength that we would like to believe is there exists.

Senator MILLER. You are familiar with the fact that there are recommendations pending for extending the most-favored-nation principle to Eastern bloc countries?

Mr. DANIELIAN. Yes.

Senator MILLER. I take it that you would not be in favor of that, although you might be in favor of extending a conditional most-favored-nation principle to these countries.

Mr. DANIELIAN. Yes, I think it would be conditional on a specific agreement being drawn up where the advantages on both sides will, I hope, be balanced.

Senator MILLER. And then I take it that you would not be in favor of a blanket extension of such authority, but that you would envision that would be on a country-by-country basis for negotiation?

Mr. DANIELIAN. Right.

Senator MILLER. So that the reciprocity that makes this conditional would be forthcoming.

Mr. DANIELIAN. I would go a step further. I will recommend this approach also to the other trading blocs, and in that way we would universalize our trade policy and eliminate the accusation of discrimination.

Senator MILLER. I understand.

Mr. Gilbert, do you think that we were wrong in our position in the Kennedy Round negotiations in asking for a guaranteed access for grains from the Common Market?

Mr. GILBERT. No, I think this was certainly indicated. I think the chances of getting it, of course, were very limited, because the Common Market was in the process of being formed while the negotiations were going on.

Senator MILLER. Yes. But by the time the negotiations were finalized it was well formed and had set its policy up. And as you know, we did not receive the guaranteed access that we requested. Do you think that we were proper in asking for that?

Mr. GILBERT. I think so. I also have the feeling that perhaps what we did get was a sharing of free grain around the world, which perhaps as a practical matter got us more than the access agreement would have afforded us. But I am not an expert on the agricultural side.

Senator Miller. Well I would like to ask you how you justify that statement you have just made. Do you think perhaps that this gave us something just as good?

Mr. GILBERT. I think I would probably have to justify it on the basis of a very great confidence in Ambassador Roth and his staff. And I know that that was his impression, that he would have got more as a practical matter than he would have gotten any other way.

Senator MILLER. I don't recall Ambassador Roth so testifying before this committee. I believe that he indicated some optimism that it might be a suitable matter, but I don't believe that he testified that this was just as good.

Mr. GILBERT. I don't want to put words in his mouth, I think as a negotiated matter he got the best he could for us under the circumstances.

Senator MILLER. On that I agree with you. But I think Ambassador Roth expressed his unhappiness over the fact that this was the best he could do, and he implied that he would have much preferred to have the guaranteed access.

Now, do you think that on our side that we were wrong in taking a position that certain types of imports such as dairy, meats, mink pelts, and the like, should be limited to a certain base percentage of our domesic consumption, with the understanding that as our consumption increases the percentage will stay stable, but the volume within the percentage will go up?

Mr. GILBERT. Can I make an indirect answer to that question and the one before? It seems to me—and I again repeat that I don't try to pass off as an expert on anything agricultural—but it seems to me that what we did export to Europe is a system of agricultural support and controls which they have copied pretty well from ourselves, and that as a citizen I would certainly wish that we didn't and weren't committed to this general approach of price supports and controls. Once we do those internally, we have certainly got to have something which parallels on the inside, or we would be supporting the price of these commodities all over the world. We let them come in with freedom. But I think in effect that that is about what the EEC was doing with its agricultural products. I wish we both would learn not to do it.

Senator MILLER. Yes. Your wish is shared by many people. But you have to deal with the realities. And there has been some criticism that because some of us have sought by legislation to do what I have said with respect to diary and wheat imports, therefore we are violating that basic premise of American foreign trade policy, and that this is very bad. I just wondered if you shared that view.

Mr. GILBERT. I don't take the position that I think it is bad. Everyone of these gives me a real feeling of alarm, not only because of its effect specifically at home, but it seems to me every foolish thing we do in this country is copied abroad very quickly. And before long we end up in a very complicated world that is more complicated than need be.

Senator MILLER. I agree. But you beg the question when you say more foolish. The President just recently issued an order rolling back diary imports considerably. When you realize that diary imports went up from 600 million pounds in 1960–61 to 900 million pounds in 1965, and 2,700 million pounds in 1966, to a rate of 4 billion pounds at the time the President issued the order. I am sure you wouldn't call that a foolish move, would you?

Mr. GILBERT. No, I was not intentionally characterizing a specific move.

Senator MILLER. With that type of a situation, do you think that we are wrong in our approach to try to establish a reasonable base period percentage, and let these other countries share in that prcentage, and thus share in our domestic consumption?

Mr. GILBERT. I think I would like to leave it that it ought to be a great matter of concern to us, and we ought to feel that we were compelled to move in these directions because I feel that we should be very reluctant to move in those directions.

Senator MILLER. Thank you very much.

Chairman BOGGS. Thank you very much, Senator.

Gentlemen, we are very grateful to all of you for your fine discussions. If any of you would care to comment on the question of future negotiating methods that may be needed by the United States, either by way of legislation, or whatever you may suggest, we would be very happy to have those comments.

This subcommittee will meet tomorrow morning at 10 o'clock in the same place, at which time we will have five members of the panel whose names will be incorporated in the record.

We will now stand adjourned.

(Whereupon, at 12 noon, the subcommittee adjourned to reconvene at 10 a.m., Wednesday, July 19, 1967.)