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US-restrictions: The border tax vs the Kennedy Round

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low, prices are also to be kept low and stable, so that the country will not quickly lose the advantage of currency devaluation. But the objectives can only be approached part of the way by the planned budget reductions, at least during 1968. There are a number of reasons for this: on the one hand, some economies, especially in the field of defence, will show their full impact only after several years; and on the other hand, most of the cuts are only cuts in growth rates. In other words, during the financial year of 1968/69, government spending will still continue to rise though only in line with assumed general production growth, by 4.5 per cent. If, however, the Government is in earnest about wanting to push up exports by 10 per cent and private investments by 7 per cent during 1968, its own spending will have to be reduced even more drastically, or private consumption must be mercilessly shrunk. As the lion’s share of public spending is fixed by statute, no really worthwhile savings in public expenditure can be made to act quickly, and demand can be brought into line with the production potential only by holding down private consumption rigidly. This is the reason why the British Chancellor of the Exchequer has already announced big tax increases for his 1968/69 budget.

**Commodities**

**Strategic Stockpiling**

After the last war had ended, proposals to stockpile strategic raw materials could hardly be applauded as an original concept. However, the vast volume and the highly diversified composition of the raw material reserves accumulated by the United States since 1946 under the Strategic and Critical Materials Stock Piling Act have been unique. The stockpiling programme has been expanded in scope several times, in 1950, by the Defense Production Act, and in 1954, by parts of the Agricultural Trade Development and Assistance Act. These successive steps have eventually led to the American Administration holding in its stockpiles over 70 individual commodities. From the end of the World War II, there have been recurrent discussions of the question as to which kind of material should be hoarded. It seemed to be a basic assumption in all such talks and consultations that certain important metals, e.g. copper, zinc, aluminium, and tin, would always be strategically important and so vulnerable that they would have to be stored against an emergency. Feverish price rises registered during the Korean war and temporary tightness of supplies during the Suez crisis of 1956 had also demonstrated how sensitive to disruption were the markets of these metals.

In 1967, however, any observer of the commodity markets must get quite a different impression. In spite of military escalation in the Vietnam war, and in spite of the brief period of costly fighting between Israel and its Arab neighbours, all industrial raw materials, including all the "typical" strategic commodities, showed a trend to weakness.

Yet all these facts do not prove that it had suddenly become superfluous to keep in stock important commodities and semi-finished processed raw materials for military reasons, for the price trends of 1967 must be understood in the context of a recession that has become clearly visible in a number of industrialised countries, including the US, the UK, and last but not least also the Federal Republic of Germany. The US Office of Emergency Planning is on the point of publishing the results of a scrutiny of the strategic requirements of raw materials during 1969-71, and this may well lead to a reversal of the present trend of running down the strategic reserves, through selling them off.

**US-Restrictions**

**The Border Tax vs the Kennedy Round**

The negotiations of the Kennedy Round which eventually achieved average tariff reductions of about 35 per cent have been the most successful talks of their kind in the entire history of GATT. A number of countries, among them the United States, have put into operation the first part of the agreed cuts in import duties as from January 1, 1968. The EEC will follow suit on July 1, 1968. Among the aims of the United States’ initiative in opening the Kennedy Round of tariff negotiations was the desire to improve its balance of payments which, for a long time, had suffered from a deficit. These hopes of the Americans have not come to fruition.

On the contrary, it must be expected that there will be sustained pressure on the international payments situation of the United States, which will also result in a continued drain upon its gold and hard currency reserves. To overcome these difficulties, President Johnson has proposed a number of restrictive measures, one of which, according to the new Border Tax Bill of the Administration, is intended to place upon all imports of the United States an additional 2.5 per cent surtax and to promote exports by a corresponding tax remission of 2.5 per cent. As the official reason for proposing the erection of such new obstacles to international trade, the Administration quoted the introduction of the "added value tax" by the EEC countries, upon which the border tax, its application and refunding on exports, has been modelled in order to equalise the indirect tax burden on goods produced and sold inside the US.

It is, of course, preferable for imports to be burdened with such measurable levies, than by physical restrictions through import quotas, yet even so, the disadvantages of the new measures are great. The main risk the United States would incur by their enactment is that of provoking retaliatory measures of the countries affected.

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