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# Atlantic Partnership and the Mills Bill

by Johannes Haubenreisser, Bonn

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Just before Christmas a legislative logjam in the United States Senate killed the Mills Bill. After anxiously following the news from Washington these last months, observers in Europe can now take a second look at certain aspects of the American scene which form the background of this bouquet of legislative measures—for purposes of simplification bearing the name of Rep. Wilbur Mills—which was loaded upon the Trade Act of 1969, introduced by President Nixon in continuation of a general drive toward freer world trade.

Without doubt, in 1971 some form of protectionist legislation will be reintroduced to the Congress. A closer look at current trends in the United States, therefore, could form part of a more thorough analysis of the situation on both sides of the Atlantic.

## **Weak Bargaining Position of Europe**

During the last weeks of 1970 a rather heavy handed campaign has been fought by European Governments and Federations of Industry and Commerce, expressing fear of a world-wide trade war of an escalation in protectionism and hinting strongly reprisals. While all these arguments are true and have indeed been repeated inside the United States, they lose some of their power when one looks at the bargaining position of European countries.

When one takes into consideration that exports account for not more than 2.5 p.c. of US GNP (4 p.c. minus Military Aid and Development Aid) and that this percentage is much higher in the EEC, one must realise that in any event a trade war with the United States would be a no-win game for Europe. Thoughtful visitors returning from the United States have remarked flatly that EEC and European problems are only known to a handful of people in New York or Washington. The return to isolationism is imminent. The idea of Atlantic Partnership is dead. The average

American—and this means the American voter—shows more interest in local and national issues, is worried about his job, disgusted with Vietnam and could hardly be bothered with world affairs, let alone tensions with Europe.

We should make an effort to understand the position of the US-Administration under a President trying to hold his own against a Democratic majority in Congress. An appraisal of this situation might be useful in connection with the discussion between members of the US-Administration and EEC officials, national governments and members of the Europeans business community.

## **Position of US-Labour Unions**

One of the more interesting parts of the Hearings before the Committee on Ways and Means, House of Representatives, are the statements by prominent representatives of the Labour Unions, who had in 1962 supported the Trade Expansion Act introduced by the late President Kennedy. In the meantime they have become disenchanted with the Adjustment Assistance provisions under this Act. They feel that the proposed Trade Act of 1969 does nothing to improve their situation.

They very strongly feel that time has come for a reappraisal of American trade policy. In the statement on behalf of the United Automobile, Aerospace and Agricultural Implement Workers of America (UAW), Mr Leonard Woodcock says: „The theoretical justification for liberal trade policy is, essentially, that consumers reap the benefits in lower prices from a rational international division of labor. But between theory and practice there is often a wide gap. The gap is narrower in those industries where effective competition prevails. But such industries are tending to diminish in numbers and importance. Increasingly the world economy is coming under the domination of a relative handful of international corporations which function largely in oligopolistic industries. These corporations open-

ly proclaim their policy of 'world-wide' sourcing which means manufacturing parts and components in a number of countries, bringing them together for assembly in perhaps another country and marketing the finished product in still other countries. In practical terms, world-wide sourcing also means buying human labor in the cheapest market, and where standards of social responsibility are lowest, and selling the product in the dearest market. It means driving workers in as many countries as possible into degrading competition with each other to the detriment of the labor standards of all of them<sup>1</sup>."

The United Steel Workers of America follow similar lines. Instead of a system of reciprocity being part of free trade expansionism, this union supports "balanced reciprocity" in international trade which would not only enhance the overall economic growth of the country but at the same time take into consideration the interests of the workers in certain basic industries.

**Negative Effects of Multinational Corporations**

The testimony of Mr I. W. Abel, President of the Industrial Union Department, AFL-CIO, comes to the heart of the matter in his analysis of world trade today: "The economies of the world's nations have changed. It is not an 'Adam Smith' world. There is no free enterprise competition. National economies are now managed economies. They are managed in different degrees but they are managed, and each has its own devices for its own advantage. One advantage, for example, is the barring of imports. The Japanese do it to the greatest extent, including the establishment of more than 100 quotas<sup>2</sup>."

He then continues to analyse the "new phenomenon, the multinational corporation" which can produce components in widely separated plants, assemble the products in a low cost country and sell the goods in the United States—very often utilising US-brand names. The sales of these corporations on world-wide scale far exceed the volume of US-exports and imports. A large percentage of

<sup>1</sup> Hearings before the Committee on Ways and Means, House of Representatives 91st Congress, 2nd Session on Tariff and Trade, p. 1720.

<sup>2</sup> Op. cit., p. 1776.

imports comes indeed from US-companies operating abroad and at the same time dispossessing American workers. The international firms have in the opinion of AFL-CIO created a kind of "Third World" where they are so influential that they seem to be above governments. The US, therefore, should take a look at the serious side effects of foreign trade.

**The Concept of "Fair Trade"**

The old concepts of free trade and protectionism have become obsolete. While the unions still believe in a healthy expansion of trade with other nations, they would want this to be balanced. The new concept should be "Fair Trade". AFL-CIO is in favour of measures to limit and tax direct investments abroad and of the establishment of a Department of Foreign Trade (with broad labour and consumer representation), responsible for problems and matters associated with foreign trade.

In connection with this testimony a member of the Committee on Ways and Means seems to have pin-pointed the issue as far as the trading partners of the United States are concerned. How far, he was wondering, could other countries retaliate. "Would they cut down that 2.5 percent<sup>3</sup> of the Gross National Product to 2 per cent? How much effect would that have on our market here, on our work force, if those jobs came back to America that we are losing because of the accelerated imports."

While this tends to put into proper perspective the bargaining position of EEC, observers here might feel that after all this is an internal discussion: This battle between Labour Management in the United States about the concept of the multinational corporation should not be fought on world markets with the wrong weapons and at the expense of other trading nations.

**Possible Solutions**

Other remarks at the same Hearings seem to show the way to possible solutions. Frequently a new International Conference on Trade to reconsider the GATT-Philosophy is mentioned es-

<sup>3</sup> Contribution of exports to the US GNP.



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pecially for the purpose to adopt within GATT an International Fair Labour Standards Code.

Time and again in discussions, American officials emphasise that positive reactions in other countries to legislation before Congress might strengthen the role of the Administration. As Mr Houtakker, Member of the Council of Economic Advisers, pointed out in a speech in New York, "The resurgence of protectionism in this country is based partly on the belief that other countries have not gone as far in the direction of free trade as we have".

While the European Economic Community outside the field of agriculture has a fairly liberal record, there are indeed some causes for complaints. These should be carefully studied as some of them seem to indicate where the Community could become more outward-looking and where solutions might be discussed with the United States. In this connection it does not matter that there is no direct relation whatsoever between the situation of the American textile, shoe, or flat glass industries and common agricultural policy of the EEC.

Common agricultural policy in its present form causes concern not only in the United States. High internal price levels have led to overproduction and to the dumping of surpluses on foreign markets, where they compete with farm products of the United States, Canada, Australia, New Zealand and others. Americans feel that with the entry of the United Kingdom being negotiated, time has come for a discussion of meaningful changes in EEC farm policy, culminating perhaps in a world wide agreed level of agricultural subsidies and protection and possibly changing to the system of deficiency payments.

#### **Preferential Trade Agreements**

Another issue creating friction between Europe and the United States are the preferential trade agreements with some third countries, notably Tunisia, Morocco, Spain and Israel. It has been contended that these agreements do not meet the requirements of Article XXIV of GATT: They do not cover substantially all of the trade between the countries concerned and they do not lay down a timetable for creating a free trade area within a reasonable period. When one takes into consideration the activity of the California-Arizona Citrus League the treaty with Morocco and Tunisia cannot just be explained with historical ties or political considerations.

According to some US observers it is open to doubt whether some of these preferential agreements will indeed have favourable economic

consequences. It would be almost foolish to assume that the support the US has given to the enlargement of the Community should be interpreted to mean that it is abandoning any of its rights under GATT.

What can EEC then do? If one accepts the fact that in foreign trade our bargaining strength is limited by our vulnerability, shifting the blame for the deterioration in trade relations to US Government and Congress (where it rightly belongs) does not appear to solve the problem.

#### **Voluntary Export Restrictions**

A multilateral agreement on voluntary export quotas for textiles or other sensitive products is seen by some representatives of certain European industries as the least evil, as a possible compromise to avert the danger of mandatory quotas contained in this particular piece of American legislation. These negotiated quotas have the added advantage of not being governed by the machinery of GATT.

But the voluntary quotas on imports of steel from the EEC and Japan to the United States have not made American producers or unions happy, while Japan and EEC industries have kept their part of the bargain. This experience and the more practical consideration that voluntary quotas might not easily be administered on a world-wide scale seem to defeat the purposes. Basically, of course, this system of orderly marketing—as exemplified by the Cotton Agreement—is as much an obstacle to free trade as any of the other measures discussed.

#### **Relation between EEC and Third Countries**

Possible points that might be discussed between EEC and other countries at the GATT-conference-table might be following:

Standstill as far as new Preferential Trade Agreements are concerned and reconsideration of the motives behind these agreements: If they are introduced for political reasons, do they have to be preferential if they cannot conform with the GATT rules, regarding free trade areas? If they are meant to help countries which have not yet been associated with the Common Market because they lack those historical ties mentioned in the Treaty of Rome, then it seems to be more a question of aiding the developing nations. As far as tariff preferences are concerned, this might be done within the framework of the UNCTAD-Preferences into which eventually the Yaoundé-Preferences should be incorporated.

Common agricultural policy should now be reappraised. The Conference should mainly dis-

cuss how the dumping of surplus exports on third markets could be discontinued.

□ The first round of discussions on non-tariff-barriers to trade should be opened. This would provide a chance for the American Administration to put on the table some of the complaints against EEC discussed in Congress.

□ Time seems to have come for the EEC Commission to draw up a list of all those commodities where quotas still exist and analyse the reasons for these restrictions of trade.

□ The real issue for the United States is not a deficit in the balance of trade but rather a pronounced strain on the balance of payments. Therefore, it should be investigated if this strain can be relieved in two important areas: firstly, by higher contributions to development aid by the more prosperous industrial nations to ease the load on the American Government. And

secondly, by a realistic burden sharing within NATO as part of the more political measures having an effect on US balance of payments.

### Summary

The EEC Commission has to try to do a better selling job in the United States—not just in Washington and New York—to counter the trend to neo-isolationism. If representatives of the US-Government and the Common Market countries could find their way to round table again this might lead to an exercise in de-escalation; even if there will not be spectacular results as we have seen in the Kennedy Round. In other words, if the Six, the would-be-members and the rest of EFTA would be ready to talk about free trade with Japan and the United States, Mr Wilbur Mills might indeed have achieved something positive with his initiative.

## Trade Policies in the United States

by Professor Robert G. Wertheimer, Cambridge, Mass. \*

Speakers at the Annual Foreign Trade Convention, held before 2000 assembled members last November in New York, pleaded with even greater than usual fervor for realistic policies and new initiatives in the international field. Above all, the maintenance and expansion of policies for freer international trade, finance and investments being the backbone of the unprecedented world economic growth, was recommended and the recent proposal of President Nixon to establish a new mechanism of planning and coordination of all foreign economic policies was fully supported. The Convention called for a re-balancing of the Balance of Payments, a reduction of military spending abroad to a minimum consistent with national Security, and the freeing of capital exports for direct investment from existing restrictions. Finally, it approved the concept of generalized tariff preferences for developing na-

tions but firmly rejected all legislative plans for mandatory import restrictions such as quotas.

### General Trends

The U.S. continues to realize the ever growing importance of world trade which in 1970 again expanded at much faster rates than its domestic economy<sup>1</sup>. While competitiveness in foreign markets was maintained, rapidly rising imports, particularly of textiles and shoes, brought on turmoil in Congress responding to strong industrial and labor demands (the first time in the post-war period) for protection. General increases in unemployment in 1970 only added momentum to these pressures. The many protectionist demands submitted to Congress simply reflect the growing—sometimes desperate—pressures from competitive imports produced no less efficiently than similar products made in the U.S. due to the internationalization of technology operated at

\* Babson College.

<sup>1</sup> U.S. exports increased by 17 p.c. over 1969, against a growth in the GNP by only 5.4 p.c. in monetary terms. World exports expanded to \$ 280 bn or 11 p.c. above 1969.