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How Free Will US Trade Remain?

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

The final stage of the Kennedy Round tariff cuts in operation since the beginning of this year apparently has brought a minimum of obstacles to imports into the US. Nevertheless, even though rising US imports seem to prove the point of a far reaching trade liberalisation, leadership of the United States in this field has come to a grinding halt.

US-Congress has not granted the President new flexibilities enabling him to deal with a further relaxation of the flow of international trade while numerous producing interests in America are pressing more energetically than ever for quick and effective relief from foreign competition. An increasing number of leading industries, their management and their labor unions, which in the past were traditional defenders of freer trade, have been switching allegiance and are asking now for the most effective form of relief namely by import quotas. The usual relief by invoking escape clause provisions has lost all of its appeal. Our trading partners can disregard this trend toward quota protection only at their own risk¹. Obviously, the British-type surtax, imposed by President Nixon last August, never aimed at a permanent solution but was introduced as shock device only to get the currency reform under way.

US-Competitive Position

In principle, the USA remains attached to the freeing of trade and the removal of as many barriers to trade, services and capital flows as possible. Obviously, we are deeply interested in the expansion of exports as earning base to finance needed imports and other expenditures. However, even the soundest re-balancing of the balance of payments cannot exact as price the destruction of more and more medium and small businesses not being able to compete with foreign imports with the consequent loss of employment, invested capital and even the spirit of enterprise. Naturally, the big corporations can face up to these problems

far better by rearranging their affairs in selecting new, more efficient methods for their production. And they do this usually by the shifting of capital and know-how to foreign markets and the setting up of production centers from where the foreign but also the US market can be advantageously serviced.

The competitive position of the USA will remain crucial to our ability in adjusting to this new situation of facing super-competitive international production entering the USA. Neither the slower pace of US inflation nor the recent devaluation by themselves will enable us to turn the corner; the restoration of our ability to compete even in the US market will require a re-tooling of many US industries, a rapid gain in productivity and sooner or later, the doubling of wages abroad². The purpose of the latter would be not only to reduce cut-throat competition but also to generate sufficient foreign buying power so that growing markets abroad themselves will absorb more of the output and thus reduce export pressures.

US Trade Policy

Dealing with specific trade and related issues, 360 Bills were introduced in the 92d Congress up to the end of 1971. Among them were 115 "Import Quotas" and 26 general "Orderly Marketing Bills" to be applicable when imports exceed certain levels of US consumption. The new big union "Trade Policy for America" basically supports quota legislation arguing that imports already have taken over large portions of the domestic market, the USA being a very large net importer of steel and steel products, cars, trucks and parts, clothing, footwear, electrical goods, machinery etc. According to conservative estimates, rising imports already have eliminated one million existing jobs and

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¹ Even an outstanding liberalist in trade such as Chairman Mills of the Committee on Ways and Means, in his National Foreign Trade Convention speech on "The Realities of Trade Legislation in the 1970's", had this to say on the subject, namely . . . "that he shared the concern of those who feel that the trade problems facing the US are so serious that we must devise trade controls which will limit imports to a certain percentage of the domestic market . . ." even though he hoped that some amendments of existing trade legislation can prevent such steps to be taken.

² Even so, a point frequently overlooked are rising US costs due to anti-pollution provisions of a voluntary or legislative measure not operating abroad.

prevented the creation of another million since 1966, while only few gains in jobs have originated in the export sector. Rising imports certainly did not slow down inflation either so that arguments as to the "enormous benefits the American consumer derives from imports" are not very convincing. Labor, responding to import pressures, now supports orderly marketing quotas wherever US produced goods are being rapidly displaced by imports. Labor also demands "Fair International Labor Standards", that means payment of wages comparable to national wage rates in the production of goods exported to the United States. In this matter, the *bête noire* has become the big corporation being accused of deliberately "exporting jobs" to low wages areas abroad (by establishing subsidiaries there). Tax restraints and control of capital exports are among other measures proposed to cope with this problem.

Summarizing all these problems, finally, the "Foreign Trade and Investment Act" of 1972³, introduced as S 2592 by Senator Hartke and Representative Burke, will pitch many members of Congress, who need not necessarily be "Protectionists", against "Liberalists" unless the latter can secure foreign reciprocity in removal of trade barriers beyond any doubt. As long as the rate of unemployment stays at a 6 p.c. range or even somewhat below, the Administration will have to struggle hard to keep this bill shelved or prevent riders that might be attached to other bills the Administration wished to become law.

The Game Ahead

Apart from the realignment of currencies, the drive for achievement of a better deal in foreign trade is gaining momentum. The so-called "Peterson Report" just issued⁴, presents a work program of tentative proposals to modernize US trade policies according to new needs. Above all, it proposes a new authority for the President to reduce tariffs and lower or eliminate non-tariff barriers in a new Nixon Round, provided reciprocity can be achieved. Tax breaks for exporters, the encouragement of medium-size companies to unite as foreign trading companies, attractions for foreign investors to bring direct investments to the USA, more effective assistance and subsidies to US industries damaged by imports, at least the study of the feasibility of a value-added tax, better export-financing arrangements, more favorable tariff treatment of the Soviet Union and of other Eastern European countries

and removal of red tape in trade — these are some of the major points in this Report. Naturally, it also deals in length with the obstacles to US farm exports as encountered in the Common Market, the decreasing acceptance of GATT Principles—the Common Market, once Britain joins, will engage in one-half of total world trade under special preferences—and the absence of standards of international protection for foreign investment.

While the Report views the recent monetary adjustments as first base of a real improvement, it formulates three basic elements that must prevail to achieve a better world monetary system: first, the operation of exchange rates within small flexible ranges such as the bands now established but otherwise stable and fixed over a long period; second, the creation of a mechanism that would provide strong enough incentives to have surplus and deficit countries participate and contribute equally to the adjustment process; and finally, the setting up of rational, definite procedures to regulate and create international liquidity outside the use of balance of payments deficits (of the USA or of any other country) or gold. In its preface and conclusion, this Report appraises the new role of the United States in world trade and finance calling for a true sharing of leadership, responsibilities and burdens with Europe and Japan now that the days of "do it alone" are coming to an end.

Protectionist Tendencies

The US preoccupation with import quotas has not slowed down even though a voluntary steel quota system is in the making⁵ and the important Agreement on Asian Textile Sales of synthetic and wool products was concluded last October. This Agreement does not impose rigid quotas but provides for an annual growth in imports by 5 p.c. from Japan and 7.5 p.c. from all other Asian textile-producing countries (in comparison, sales of US produced, man-made fibers have been increasing at only 3.3 p.c.). However, even though a few other quota limitations are working well, this has not satisfied pressure groups which propose a general use of this type of protection. In consequence, dozen of quota bills are filed in each Congressional period working for broader support in this matter. Only a dramatic improvement in US exports, a slowing down of imports and a sharp decline in unemployment in import-sensitive labor markets can keep off this trend toward protectionism re-

³ The purpose of this Bill, a successor of H R 16920 of 1970, is to "promote and maintain a fully employed, innovative and diversified production base in the US". Among various measures to accomplish this, the Bill provides quota protection and amends the tax laws to encourage US manufacturers to maintain production facilities in the US instead of relocating abroad.

⁴ Peterson was Assistant to the President for International Economic Affairs, a kind of "economic Kissinger". He has recently become Secretary of Commerce.

⁵ The United Steelworkers Union calculates that steel imports cost 93,000 jobs in 1971 with a record of 18.5 mn tons of steel having been imported. Specially steelmakers are particularly aroused with imports accounting for 85 p.c. of the market of stainless wire rods and 33 p.c. of cold rolled stainless sheets.

flecting a natural ground swell. The Peterson Report opposes such protective measures which only would slow down our gains in productivity and ability to compete abroad. However, so long as American hourly wage rates in manufacturing run at three-times the level of those of our chief competitors, the protectionist issue is bound to remain an active one.

Views on the Enlarged EEC

The expansion of the Common Market by inclusion of Great Britain, etc., is considered to be a liberalizing force with benefits for world trade⁶ and the United States, even though a minority in Congress sees in the expanded community a new power block and force of disruption⁷. The facts speak in favor of rising advantages from this union achieving a synergist effect in benefiting US foreign trade and investments. US exports to the Common Market already have tripled since 1958, accompanied by a large balance of trade surplus and rising direct investments and earnings⁸. Even in the delicate area of US agricultural exports, the joining by Great Britain is expected to reduce the dangers of the Common Market becoming an area of major agricultural self-sufficiency⁹. While the US direct investment position in Europe is being strengthened by the large size of such investments in Britain, the output of which now will gain better access to the Common Market, European block trading and expanding trade preferences meshing into their system most of the African and Mediterranean trade are creating unresolved conflicts. In this process, the once meaningful most-favored nation clause, the pillar of GATT's trade liberalism, is becoming a mere shadow of itself¹⁰.

Economic cooperation with the EEC is wanted¹¹ but its African and Mediterranean preferences as well as protective agricultural policies have laid the foundation of growing frictions. In any case, GATT principles and the Common Market approach are considered not to be compatible and unless re-

solved, this smoldering situation of discontent is going to explode into an open struggle.

Cooperation with Japan and USSR

The expansion of US-Japanese trade remains a welcome stimulus to the overall pattern of business even though sectors hit by hard-pressing Japanese imports suffer. The US purchases one-third of total Japanese exports of \$ 23 bn with record sales of cars, electronics equipment, steel, textile and other goods. In spite of the current US-Japanese trade deficit of \$ 3 bn, the economic relations have remained very friendly. Japan has accepted several quotas, fully cooperated in the upvaluation of the Yen and in general shown a very realistic response to US trade and financial needs.

A new era has also opened in US-Soviet trade relations. The Soviets seek from the US the most-favored-nation tariff treatment, Export-Import Bank credits, the purchase of high technology goods among others and a general "normalization" of trade relations. The American response is growing more favorably in order that US trade should not deprive itself of a market already well established for European and Japanese exporters. Talks also cover Joint Ventures in resource development that could lead to large purchases of natural gas, copper, tin, titanium by the USA.

Concerning Foreign Aid, the US balance of payments problem and the too slowly unwinding Viet Nam war have damaged its image and there exists very little enthusiasm for a renewed vigor in this direction¹². At best, lip service is being paid to push foreign aid more vigorously¹³. Even the long promised preferential treatment legislation for manufactured imports from developing nations has not reached the floor of Congress at a time when many such preferences already were granted by the EEC last July. The Foreign Aid argument, at worst, wants its minimization until all American poor have received sufficient public assistance. The combination of unemployment, inflation and pressures against the dollar had a very unfavorable influence upon any plan to "do more for foreign aid". Even the Peterson Report proposes only small pickings for developing countries such as "our relations with the 100 Less Developed Countries involve complex and interrelated problems of trade and aid. These countries, to be able to grow must export more, but this implies that the industrial world must open its markets on an equitable and realistic basis".

⁶ According to some estimates, the enlarged Community of Ten importing now for \$ 77 bn annually, is expected to expand these imports to \$ 130 bn by 1980.

⁷ The Peterson Report speaks somewhat in a similar language, though it emphasizes barriers to US farm exports and discriminatory commercial policies, provided they cannot be mitigated.

⁸ Namely, a \$ 2 bn trade surplus in 1971, while US investments in the Common Market grew to \$ 11 bn in the same year.

⁹ In 1971, of total US farm exports amounting to \$ 7.5 bn, the Common Market purchased 1.8 bn and Britain 0.7 bn.

¹⁰ W. Eberle, President Nixon's special trade representative (an internationalist in principle though prophet of mutuality) has worked and will have to continue to work with Dr Dahrendorf, the EEC's trade commissioner, to "iron out" some of these certainly not unsurmountable issues.

¹¹ On January 12, 1972, 14 visiting members of the House Ways and Means Committee declared in Brussels that "they strongly supported a United Europe and closer international trade ties". This could mean that they will back liberal legislation in the future whenever possible.

¹² Enough Aid Funds have been authorized in recent years to keep the 1972/73 program of \$ 2 bn annual aid fairly intact; beyond this, the Congress has slashed Assistance into one-half.

¹³ With the exception of Paul Hoffmann, the Administrator of the Marshall Plan and now retiring director of the UN Development Program.