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CONGRESSMAN'S REPORT

By Morris K. Udall

THE TRADE EXPANSION ACT OF 1962:

"A BOLD NEW INSTRUMENT OF AMERICAN POLICY"

After World War I President Wilson tried to lead the United States into the League of Nations. He hoped for a world in which war could be avoided and in which nations could trade freely with each other. But this nation turned its back on the League and began to look inward, hiding in isolation behind a "protective" tariff.

Our tariff wall, to protect American producers against competition from "low-wage countries", started going up in 1922. It was completed in 1930, with passage of the Smoot-Hawley Act--which set our tariff at the highest level ever. Trade neared a standstill. Europeans, meanwhile, needed access to American markets as never before, to help pay off their war debts. Dismayed by our restrictions to trade, they retaliated with barriers against our products. As a result the depression deepened on both sides of the Atlantic.

To reverse this trend and bring about economic recovery, President Roosevelt and Cordell Hull sought--and gained--passage of the 1934 Trade Agreements Act. Since then our tariff has been reduced gradually and trade with other nations has flourished.

Year	America sold abroad	America bought abroad	Trade balance in our favor
1929	$5.2 Billion	$4.4 Billion	$800 Million
1933	$1.6 Billion	$1.4 Billion	$200 Million
1960	$20.3 Billion	$14.7 Billion	$5.6 Billion

In the decade since 1950, our sales abroad have doubled. Our purchases, meanwhile, have increased only 67 per cent. We are now the world's biggest trader. Price tags marked "Made in U.S.A." account for one in every six dollars' worth of goods in international trade.

Today, we have arrived at another milestone in our efforts to keep goods flowing freely. The 1934 Act, which has been extended 11 times, expires in June of this year. President Kennedy has asked, not for renewal, but for replacement of the 28-year-old law with a Trade Expansion Act of 1962.

I am inclined to favor the President's proposal. To give you some of the background on this issue and to indicate what a "bold new instrument of American trade policy" would accomplish, I have prepared this special report.

ARIZONA HAS A DIRECT STAKE IN OVERSEAS TRADE

Much has been said and printed about the President's arguments for trade policy overhaul at this time: The economic challenge of the Common Market and its Cold War potential, our balance of payments position, the special trade needs of Japan and the developing nations, and the need for improving our own economic growth rate.

More will be said about these points later on. Right now I would like to point out that, aside from these general foreign policy and economic concerns, Arizona has a direct stake in this nation's overseas trade.

The departments of Agriculture and Labor estimate that 12,900 Arizona farm workers helped produce $74.2 million worth of commodities for sale abroad in 1960. Of the total, the 2nd District share came to $42. 3 million--including $30.6 million in cotton, $2.8 million in livestock products, $2.3 million in wheat and $1 million in sorghum grains.

> Overall, three dollars worth of farm commodities from the 2nd District are sold overseas for every dollars' worth of goods coming into the district from fields abroad.

In manufacturing, 12,635 Arizona workers produced $29.3 million in goods for sale abroad in 1960. This means
that at least one in every three of the state's industrial workers was engaged in producing for export.

THE PHILOSOPHY OF FREE ENTERPRISE AMONG NATIONS

Most people who take a position on the tariff and trade issue fall into one of two camps. In one are those who favor the removal, wherever possible, of barriers to trade; in the other are those who would prefer that most, if not all, Americans buy only goods made in America. Philosophically, I favor the former.

The free enterprise economy in which we take such justifiable pride is based on the idea that individuals and firms will specialize, producing whatever is best suited to the talents and resources at hand. Free competition between nations is simply an extension of this idea. Whenever nations refuse to "specialize" they must somehow "subsidize", to bring the price of outsiders' wares up to the going price on locally produced items. Any way you look at it, such price props are a waste of human and natural resources. They do not stimulate industry and ingenuity. Quite to the contrary, they reward and thereby perpetuate inefficiency.

> Originally a tax on imports for revenue purposes, the tariff is now primarily a device to shield a nation's producers from "foreign" competition. The cost of this protection is in reality a tax on consumers. For instance, present American tariff schedules add about $5 to the price of a $40 imported bicycle, $2.50 on a $20 wooden chair, $4 on a 17-jewel watch in stainless steel case.

I strongly believe in the energy and resources of the American people. I think we can compete with any country in

the world. And, in the long run, removal of barriers to trade will give us a higher standard of living--a bigger variety of goods available at lower prices.

HERE'S WHAT THE PRESIDENT HAS REQUESTED

Presidential power to adjust tariffs is a potent bargaining lever. The United States is the world's most glittering market; an offer to lower our tariff walls can be used to tempt other nations to do likewise, opening up new markets and improving the competitive situation for Americans doing business abroad.

In the Trade Expansion Act of 1962, the President is seeking two basic kinds of tariff-cutting authority for use over the next five years:

* General authority to reduce tariffs by 50 per cent--including negotiations on broad categories of products--in exchange for concessions from other nations.
* Special authority to reduce or eliminate all tariffs on those products where the United States and the Common Market nations dominate world trade.

Tariff cuts under the new act would not all come at once; they would be "staged" over a five-year period, making the cuts in five equal installments. The 1934 Trade Agreements Act initially allowed the President to halve tariffs. In the last extension of this act, in 1958, the President was authorized to cut tariffs only 20 per cent. Existing law also requires item-by-item negotiation, which is time-consuming and complicated. A one-hole widget, a three-hole widget, a nine-hole widget with chrome trim--under present law the offer to cut tariffs must be made individually on each of these (widgets are mythical items dear to the hearts of people who write about trade policy). The President is asking for authority to exchange tariff concessions across-the-board, cutting the tariff by a given amount on all widgets.

The President's proposal retains the "most-favored-nation" principle, whereby tariff concessions negotiated with the Common Market would be extended to our other Free World trading partners. In addition, the new act would give the President power to eliminate the few remaining tariffs on tropical farm and forestry items--which this nation does not produce in any significant amount--if the Common Market will do likewise. Both of these provisions are designed to preserve and to expand trade ties between ourselves, the Common Market, Canada, Japan, Latin America and other non-European nations.

> On the protection side, the new act would retain presidential authority to adjust imports of goods that threaten national security. Also retained, in modified form, are the so-called perilpoint and escape clause provisions.

Under present peril point procedure, the President must submit to the Tariff Commission a list of all items on which he plans to negotiate. Then this commission must determine the point at which any further reduction of the tariff will result in serious injury to an American producer. The President may not cut the tariff below this point unless he explains his reasons for doing so to Congress. The new act would, as in the past, provide for Tariff Commission review of proposed concessions. However, the commission would not determine any specific floor below which the tariff could not be cut.

> Escape clause provisions now allow an industry to apply to the Tariff Commission for relief, if the industry feels it is--or may be -- hurt because of increased imports flowing from a tariff cut. The commission then may recommend a tariff increase to the President. If he does not agree, he must explain why to Congress, which may overrule his decision by a two-thirds vote.

The new act would authorize the President to provide for relief whenever the Tariff Commission finds that an entire industry is suffering idle plants, operating at a loss, or has laid off workers as a result of a tariff cut. However, the President has made it clear that escape clause relief would be a last resort, that federal "trade adjustment" assistance to firms and workers is much preferred.

Under the Trade Expansion Act, a firm hurt by a tariff cut could get these types of assistance: Tax benefits, loans and technical information to aid in modernizing and re-tooling for new products. Readjustment allowances, vocational education and relocation assistance would be available to workers made jobless because of increased imports.

Passage of the act and reduction of tariff barriers between our country and the Common Market nations should result in expanded business for many existing firms and the creation of many new firms. On the other side of the coin is the fact that some firms now protected by the tariff will be hurt. The Department of Commerce estimates that between 700 and 800 firms could be affected--in some degree--during the five-year life of the act, requiring about $15 million in technical aid and some $120 million in loans. About 18,000 workers a year might be eligible for assistance, at a total cost over five years of $50 million.

EUROPE'S COMMON MARKET: OPPORTUNITY AND PERIL

The Common Market opened for business with little fanfare on January 1, 1958, when six nations--West Germany, France, Italy, Belgium, Holland and Luxemburg--agreed to mesh their economies. It has flourished and expanded since then, and in this growth are both opportunities for the West and elements of peril. Here is the shape of the challenge:

Britain, which had formed a rival European Trade Association "outer seven, " applied for membership in the Common Market in mid-1961. Denmark applied at the same time, and the rest of the "outer seven"--Switzerland, Austria, Portugal, Norway and Sweden- -are expected to follow suit. Greece has already become an associate member, and Turkey is attempting to do likewise.

> Meanwhile, the 13 West European nations (the Common Market "six" plus the "outer seven") that have organized for economic purposes are enjoying a sustained boom. In prospect, when integration is complete,is a single market embracing some 300 million people with a total buying power almost three-fifths as big as our own. Already there is prosperity in this combined market. The average economic growth rate is about double that of the United States. There is a new feeling of confidence despite the rocket rattlings of the Soviet Union.

I am convinced that the success of the Common Market has been one of the greatest disappointments the Communists have suffered in post-war years. The Kremlin's plan for world domination called for the capitalist economies of Europe to stagnate and, eventually, to collapse. That they have done just the opposite is due in part to such farsighted American policies as the Marshall Plan.

> Today, Khrushchev sees the Common Market and its expansion as the most formidable barrier to communism, not because it is directed against the Soviet Union but because it strengthens the whole Free World. Tomorrow, his successor may see it as a giant political and economic magnet, attracting the captive East European nations away from the Soviet orbit.

But while economic integration represents new sources of strength for the Atlantic Alliance, the keystone of our Cold War strategy, the Common Market also has within it a potential for divisive economic rivalry. The heart of the matter lies in the fact that, while tearing down tariff walls against goods exchanged among themselves, Europeans are <u>preserving</u> barriers against the goods of outsiders, including ourselves.

If the Europeans should be unable to resist the temptation to build ever higher tariff walls, we and our other Free World trading partners would be locked out. This potential for the creation of rival trading blocs appears just as the need for economic unity seems greatest. In 1954 the Communists launched a trade offensive against the West and the developing nations; their capacity to conduct economic warfare on a global scale has been increasing ever since.

> From a narrower commercial standpoint, the tariff adjustment under way among Europeans also threatens an expanding American market.

Before the Europeans began meshing their economies, an American and a German tire manufacturer faced the same tariff in France. After integration, the German, a Common Market "insider", will pay nothing; the American will face a tariff of $2 or more per tire. Such price discrimination could cost American producers as much as $800 million annually, with sales of machinery, electrical equipment, finished chemicals, wheat and animal fats hardest hit. Corn and feed grains, tobacco, oil and wool sales would be affected to a lesser extent.

At present, one-third of our total overseas trade is directed toward West Europe. Sales in the area have increased steadily, from $2.5 billion in 1953 to a whopping $5.7 billion in 1960. Most experts agree that our sales are likely to continue to increase--if the Europeans can be prevailed upon to keep their common external tariff wall low.

TRADE HELPS OFFSET THE COST OF WORLD LEADERSHIP

Considering this nation's role as the world's biggest trader, it should come as no surprise that our overseas sales and purchases affect every part of our domestic economy. It is perhaps less well known, however, that the dollar value of our sales abroad also is directly related to our responsibilities as leader of the Free World.

The goods our producers sold abroad in 1960 provided work for 3.1 million Americans. Our farmers in the same year earned $5 billion, or 14 per cent of their total cash income, through sales in overseas markets. Put another way, this represents the crop off one of every six acres harvested.

Imports also provide jobs. Goods from abroad must be moved about and, in some cases, packaged here. Furthermore, a number of imports are vital to our national security. Today, well over half the goods we buy overseas do not compete with goods produced here; most of these non-competitive imports are scarce raw materials needed to support our industries. By way of illustration, 90 per cent of the chrome ore needed for our steel mills and 84 per cent of the bauxite needed for our aluminum manufacturers must be imported.

If we stopped trading abroad, the shortage or price rise on certain goods and raw materials would make these items too costly for any but the extremely wealthy: coffee, cocoa, spices, anything in tin cans, aluminum kitchenware, new radios, television sets, telephones, washing machines and automobiles.

> Even more important, the dollar volume of our trade affects our so-called balance of payments position.

We now sell far more than we buy abroad. But, despite this favorable trade balance, we are continuing to spend more dollars overseas--to pay for import of raw materials and other goods, in investments, to maintain troops and in foreign assistance--than we have been able to get other nations to spend here. In 1957, we sent $3.7 billion more abroad than we got back. The payments deficit reached $3.9 billion in 1960, before improving somewhat last year.

The net effect of such deficits is to create a drain on our gold supply. If this were to continue, it could undermine world confidence in the dollar. President Eisenhower urged measures to boost sales of American goods as a means of closing the payments gap. President Kennedy has held out the choice of either improving the balance further by increasing exports or of retreating from some of our defense and assistance commitments abroad.

WE MUST CONSIDER OTHER NATIONS' MARKET NEEDS

Among America's responsibilities as leader of the Free World are the special trading needs of Japan and the developing nations, which are particularly vulnerable to Communist economic imperialism. Japan is a vital ally. If Japan cannot find markets, this key democratic nation may turn away from the West.

> The problem of trade relations with Japan has come in for considerable attention in recent years, because some Japanese goods offer stiff competition to American manufacturers. This pressure, in turn, is aggravated by widespread discrimination against Japanese goods by other Western nations. Japan's best pre-war market, China, is for all practical purposes closed. Thus, the United States has no real alternative but to continue to press Japan's case for access to new markets.

Common Market members' concessions to their former colonies in Africa have also accentuated economic problems in other developing nations. For instance, among Latin America's chief exports are coffee, bananas and other tropical fruits. The Africans, whose products are on the Common Market "free list", produce similar commodities for export. Because Western Europe has maintained high tariffs on coffee and bananas, among other items, the concessions to the Africans put Latin producers at a severe price disadvantage.

While their resources are limited, the Communist bloc nations have indicated that they also understand the economic facts of life, along with the advantages of beating the West at helping newly independent nations. Soviet bloc trade with non-Communist nations in the less-developed areas tripled between 1954 and 1960, rising from about $870 million to some $3 billion. Soviet leaders, meanwhile, have made it quite clear that they value this trade "least for economic reasons and most for political purposes."

Provisions of the Trade Expansion Act have been written with these problems in mind. I am sure that the President's new authority under the act would be used not only to strengthen trade ties between Japan and the West but those between the industrialized and the developing nations as well.

THE OUTLOOK IS FOR TRADE BILL APPROVAL

At present, the President's trade bill is being put in final form by the House Ways and Means Committee. Its work is expected to be completed by June 1. What action Congress eventually will take, of course, remains to be seen, but legislative soothsayers believe that the President will get substantially what he has asked.

> All things considered, I believe that a good case has been made for some change in our trade policies at this time, to make sure that Western Europe and this nation "grow together, not apart."

We do not have to join the Common Market. Indeed, we have neither been asked to do so nor are we likely to. But European economic unity is putting new muscle behind NATO. We must continue to encourage this development. At the same time, the booming Common Market nations today are a big and growing market, a continental showroom that must be kept open to American goods. The President must be in a postion to do some hard bargaining on the tariff, if we are to meet the economic challenge of the "new" Europe and to reap the Cold War benefits it promises.

A number of questions remain, however, particularly with respect to how much authority the President needs at this time.

* The basic tariff-cutting authority is not without precedent; it has been in the hands of our presidents since 1934. How low the President should be authorized to drop tariff barriers is another matter, which, of course, goes to the heart of the problem for import-vulnerable industries and their employees.
* I believe, too, that we must move with caution in the area of "trade adjustment", the device designed to soften the impact of increased imports. I want to be sure any such procedures are purely temporary "adjustment" aid--and not the beginnings of a federal subsidy program similar to that in agriculture.
* To make sure the door is not opened to ever expanding subsidy requests, the ability of American industry to compete with overseas producers must be maintained. Our producers must be encouraged--and, in some cases, helped through tax credits and other means--to modernize their plants.
* In another area, I question whether Congress should remove entirely the restrictions on presidential authority built into existing escape clause procedures.

Finally, we must remember that other nations' tariff schedules are only one among many barriers to the sale of American goods abroad. Our agricultural products, bound for Common Market nations and elsewhere, are especially vulnerable to non-tariff trade restrictions, including import quota systems, state trading monopoly regulations and various special import fees.

In my opinion, it should be clearly understood that a 1962 Trade Expansion Act would not in itself solve all of the complex problems of international trade. A new law would be a tool in the hands of the President. Like other tools, its utility will be determined by how skillfully it is employed. One of the basic aims of trade policy revision is to expand sales of our goods abroad--which will require continuing pressure for removal of all barriers raised against American products in overseas markets.

CONCLUSION

Once before we retired in isolation behind high tariff walls. Outside, Hitler and Mussolini were promising to end the depression with one blow of their mailed fists. A frustrated Japan began offering its wares on the tip of a bayonet. The catastrophe of World War II was upon us before we were either willing or able to cope with it. I hope this kind of history will not be repeated.

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