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**Article**

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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

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<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.

very low wage costs<sup>2</sup>. While this mood is not one of isolationist revival, it reflects the growing disappointment about the lack of foreign understanding of U.S. problems and the continued denial of true reciprocity on the part of some trading nations<sup>3</sup>. The international position of the dollar is considered to be strong but a further strengthening of all currencies within the International Monetary Fund is viewed as one of the more urgent objectives.

### **The U.S. Trade Balance**

According to latest data available up to the end of September, the U.S. trade balance significantly improved in 1970 over 1969, achieving a merchandise trade surplus of \$3 bn on an annual rate (against a gain of only \$0.6 bn in 1969). Commercial exports were running at \$42.7 bn or 17 p.c. above 1969, with machinery, chemicals, aircraft, steel and coal achieving the major gains in European and Japanese markets. Increased shipments of soybeans and animal feed added to the rise of farm exports though at somewhat lower than average rates of gain.

The value of imports at \$39.4 bn was 10 p.c. above 1969, consumer products gaining further and accounting for one-half of the total advance. Heavy demand for car imports with the German share holding its own (after three successive annual declines), contributed much to this gain even before the General Motors strike when foreign car sales climbed to 20 p.c. of the total<sup>4</sup>. Footwear imports also increased their share in the U.S. market while capital goods imports expanded by another 15 p.c., now accounting for 6 p.c. of total U.S. equipment purchases.

In spite of rising total exports, the U.S. share in world exports of manufactures continued to decline from 21 p.c. in 1969 to 20 p.c. of the total in 1970, this being the lowest share in a decade. Non-electrical machinery exports increased at only one fourth the rate of that of competitors and the shares of electrical machinery and transportation equipment also slumped.

The deficit on the liquidity balance (defined as U.S. liabilities to foreign residents and official

<sup>2</sup> U.S. export industries provide, it is estimated, two million industrial jobs including shipping and services. As to imports that could be produced domestically (75 p.c. of total imports), protectionists argue that "if all these goods were produced here, they would create 2.6 million jobs". A fatal view for the international practitioner which, though, with its popular appeal, cannot be ignored.

<sup>3</sup> Particularly, the vast field of non-tariff protection—foreign export subsidies, the effects of the value-added tax and various other discriminatory though secretive attitudes—amounts to a systematic evasion of the true GATT spirit on the part of some members and by far exceeds in its effects the "Buy American" provisions.

<sup>4</sup> Foreign car sales constituted 14 p.c. of total U.S. sales until the end of September.

agencies) climbed to a high of \$7.2 bn in 1969 (against a small surplus in 1968). The borrowing of Eurodollars to the tune of several billion by U.S. parent banks from their foreign branches in response to tight money, but also a decline in the purchase of U.S. securities by foreigners, etc., brought on this large deficit.

The official balance, on the other hand, for similar reasons but in reverse, showed a decline in liabilities to official dollar claimants and achieved a surplus of \$2.7 bn (against a surplus in 1968 of \$1.6 bn). The large demand for dollars abroad in order to purchase Eurodollars, to benefit from the high rates they paid, shifted privately and officially held dollars into these short-term lending instruments. Viewing the deficit from the basic balance position showing a deficit of \$3.5 bn, the surplus earned on the goods and services account, amounting to \$4 bn, was insufficient to finance private long-term capital outflows and government foreign spending.

### **Liquidity and Official Balance**

Data available so far for 1970 lead one to expect a much larger surplus of \$7 bn on the goods and services account chiefly as a result of a surplus of \$3 bn on the merchandise account (against \$0.6 bn in 1969). Private capital movements, however, will be larger as result of Eurodollar repayments to foreign branches totalling \$6.5 bn in 1970. Assuming the gradual resumption of foreign buying of U.S. securities in response to the improving stock market and some favorable shifts between liquid and non-liquid assets, the liquidity deficit should be reduced to \$5.5 bn in 1970 (based on unchanged government spending abroad since 1969).

On the official reserve transactions balance, the surplus of \$2.7 bn in 1969 will not be repeated. The result will be rather disappointing—exactly due to the return flow of Eurodollars now being soaked up by foreign Central Banks. This deficit, however, should be held to below \$3 bn due to the liberal use of U.S.-owned reserves for payment—at \$3.3 bn—, the utilization of a portion of Special Drawing Rights and the traditional year-end "window-dressing".

For 1971, we should expect further gains in the surplus on the merchandise balance, probably to \$4 bn which would push up the surplus on the entire goods and services account between \$7.5 and \$8 bn. At the same time, deficits, on both private capital and government foreign spending accounts, should decline for two reasons. Firstly, the deficit-creating return flow of Eurodollars will have slowed down while the recovering U.S.

economy again will offer an attractive field of capital imports. Secondly, the approaching liquidation of the Vietnam-war and improved NATO and other financing is expected to reduce government spending abroad. By and large, therefore, we should run much smaller deficits on the liquidity and official balance with a chance of some surplus on the latter.

### Foreign Arguments

While the Balance of Payments prospects look more favorable, we must face up to the following arguments: that the U.S. is "living beyond its means", that foreign creditors are "financing the Vietnam war", and that the "dollar is overvalued". These views lead some foreigners to expect that the U.S. will be unable to expand exports in a long-run, and they also lead to a growing doubt on the part of dollar creditors about the "true value" of their \$ 44 bn claims (on official and private accounts). While Europe might agree to annual increases in official dollar reserves by \$ 1.5 bn—so the word goes—, it could not go much above this amount, hence limiting deficits to this figure. Foreign Central Bankers and the leaders of the I.M.F. are making it quite clear that their intake of U.S. dollar balances must be slowed down and that the U.S., in particular, must persevere in fighting inflation. The problem can be pin-pointed as follows: U.S. capital exports and government spending abroad are too large and they cannot be financed from goods and services surplus. Even the improved 1970 basic balance is not satisfactory though it has shown a cooling off of the U.S. economy, slower import growth and more active export markets responding to foreign prosperity. While this trend appears to continue into 1971, any further improvement in the balance of payments really will depend on a successful stabilization of the U.S. economy.

For several years now the argument has been made that "too many dollars are in foreign hands" and that a more effective adjustment process is needed to close the gap. However, a sufficiently large increase of exports is hampered by the indifference found in the U.S. to engage in long-term export financing and the inability of competitive pricing in many areas. A reduction in imports is fiercely opposed by our trading partners who adamantly insist upon achieving balance of payments surpluses for themselves even though they realize that in order to become creditor somebody else must be a debtor. A further curtailment or blocking of U.S. private capital exports would weaken international capital markets and slow-down the growth of the world economy; a devaluation of the dollar "to cure the deficit"—

meaning an increase in the official price of gold—is neither feasible since it would face absolute opposition in Congress nor practicable as other nations would follow suit. Flexible currency rates and gradually adjusting parities to realistic levels are rejected abroad. An up-valuation of the currencies of surplus countries, for example Japan, is favored by the U.S. but it remains in the national domain of each creditor to make such a decision and probably would have no impact either. The most powerful adjustment process toward equilibrium by a drastic reduction of U.S. government spending abroad would require the liquidation—at least partially—of NATO and the military support of Japan, a complete withdrawal from South-East Asia and cancellation of most U.S. foreign aid. These steps reflecting a new political isolation, would cost too big a price to pay for the elimination of the payments deficit. At the financial end of this process, the weakening or elimination of the U.S. as the world banker would take place creating a dangerous interregnum of financial uncertainty in which no other currency would yet be ready and strong enough to fill the gap, even if a Common Market currency could be created more swiftly than expected. Under these circumstances, the safest way seems to be to stick with the dollar, to encourage creditor nations to use more of their hoard for trade and capital exports and to propose new approaches that rather would strengthen the principal international currency than weaken it.

### The Mills Bill

The Quota Bill in Congress, designed to slow-down the growth rate of textile imports chiefly from the Orient, already has become the shot heard around the world and responded to with anguish, anxiety and threats of retaliation. This international alarm is perhaps useful as a precautionary move but jumping to the conclusion that the U.S. now wishes to overthrow its commercial policies of greater freedoms carefully built over the last 38 years and wants to turn protectionist-isolationist, is absurd. Actually, U.S. trade policies remain firmly grounded on GATT-principles and the Kennedy Round and it should be emphasized that all agreed tariff reductions dealing with 60,000 items traded at \$ 50 bn annually, will be carried out in 1971 and 1972. The business community supports the concept of freer trade and interdependence of national prosperities, a view supported by the "Cabinet Committee on Export Expansion" in 1968 when it presented its plan to bring U.S. exports from \$ 34 bn then to the \$ 50 bn level by 1973.

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# GERMAN PRISM

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## **Smaller Growth Rate of Investment in 1971**

The industrial investment climate is characterised by the fact that the growth rate of the processing industry's gross capital investments is stated to be 5 p.c. only. In the preceding year it had been 22 p.c. and in 1969 even 36 p.c. According to the plan-figures given by those entrepreneurs that participate in the investment test of the Institute for Economic Research—IFO—it has to be expected that the 8 p.c. growth rate of investments in the food and beverages processing industries will be higher than that of the capital goods industry with 7 p.c. The share of investments aiming at capacity expansion should decline from 53 p.c. in the preceding year to 43 p.c. in 1971. On the other hand, the proportion of rationalisation investments is expected to rise from 37 p.c. to 41 p.c. and that of investments in replacement purchases from 10 p.c. to 16 p.c.

## **German Uni- lever Group: Subsidiary Companies**

Early in 1971 the approx. 80 German subsidiaries of the Dutch-British Unilever concern will be concentrated in the holding company Deutsche Unilever GmbH. The German Unilever Group is ranking first among the German food processing concerns with 38,000 persons employed and a turnover of about DM 3.5 bn. Most important to the firm is the food sector, and here Margarine-Union GmbH in Hamburg is the concern's main firm. Unilever controls 75 p.c. of the German margarine market, but also in the German fish processing industry and in the frozen food business Unilever's market share is remarkable. Furthermore, the German Unilever Group is successful in trade, in the packing material industry and in the production of detergents.

## **German-French Cooperation in Lower Saxony**

On December 7, 1970, the European Investment Bank granted Preussag AG a loan of DM 40 mn. This loan is earmarked for the financing of a zinc electrolytic refiner at Nordenham/Lower Saxony. The construction of the elec-

trolytic refiner will be carried through by Preussag in cooperation with the French Société Minière et Métallurgique de Penarroya S.A. Production facilities with an annual capacity of 100,000 tons of zinc are to be built. Both partners anticipate that this capacity will guarantee a corresponding cost reduction and increased competitiveness of the new plant in the EEC.

## **Expertise on the Competitive- ness of German Shipyards**

The Federal Ministry of Economics has ordered an expert opinion on the competitiveness of the German shipbuilding industry. This expertise will be made by the "Arbeitsgemeinschaft Werftgutachten 1970". The following firms are members of the working group: Deutsche Revisions- und Treuhand Aktiengesellschaft Treuarbeit, Kienbaum Unternehmensberatung GmbH and Knight Wegenstein GmbH. All of these firms have experience with shipbuilding problems and shall analyse the terms of competition and the probable development in the international shipbuilding market as well as the situation of the German shipyards. Furthermore, the possibilities and limitations of an improvement in the German shipyards' competitive position through self-help and government measures are to be investigated thoroughly. In this context the effect of private and public measures on the regional economy, the labour market and the social situation shall be taken into consideration.

## **Development of Berlin's Economy Slowing down**

According to the German Institute for Economic Research (DIW), Berlin, the Berlin economy must anticipate a smaller growth rate. In 1971 a continued decline of demand in Western Germany should be expected. Due to the close links between West Berlin's economy and the Federal Republic the same applies to Berlin. For the current year, DIW therefore anticipates a nominal growth rate of 11.5 p.c. to about DM 26 bn of West Berlin's GNP, and in real terms it should amount to 4.5 p.c. With that the economic growth of the Federal area as a whole will just be reached only. With regard to the importance of a continuously favourable development of immigration and the general de-

crease of the propensity to invest, the Institute points out that the structural improvements due to the Berlin Promotion Law of last summer had come just in time under economic policy aspects.

**2,500  
Courses for  
Instructors  
in 1971**

In 1970, 81 Chambers of Industry and Commerce in the Federal Republic of Germany made 2,500 arrangements for the training of instructors. According to data published by the Association of German Chambers of Industry and Commerce (DIHT) these arrangements comprised lectures, information days, short-term courses and instructors' seminars lasting longer than 60 hours. The methods, contents and forms of this promotion of instructors are increasingly imitated and further developed by entrepreneurs and associations. In this context the special conditions of firms and economic sectors are also taken into consideration.

**Retail Trade  
Pessimistic  
about  
the Future**

According to the President of the General Association of German Retail Trade, Fritz Conzen, the year 1971 will bring two developments for retail trade: a cooling down of the economic climate and continuously increasing costs. Therefore Herr Conzen expects a turnover growth rate of 8 p.c. for the about 400,000 German retail firms. On the other hand, in his opinion prices will have to increase by approx. 4 p.c. owing to higher cost prices, higher fees and charges and above all increasing salaries and wages.

Moreover, he emphasised that—although trade needs trade fairs and exhibitions in order to become acquainted with new assortments—the growing number of exhibitions make excessive demands above all on the owners of small and medium-size trade firms. Herr Conzen warned against an inflation of trade fairs and exhibitions that might bring hard times for some of their organisers.

**Energy Con-  
sumption Rose  
Considerably  
also in 1971**

In spite of a distinctly weakening economic trend in the second half of 1970, energy consumption increased vigorously. According to data published by BP, Benzin und Petroleum AG, Hamburg, consumption of primary energy rose from 320.7 mn hard coal units (SKE)

by 21.3 mn to 342.0 mn SKE, corresponding to a growth rate of 6.6 p.c. Although growth rates in 1968 (8.1 p.c.) and 1969 (9.0 p.c.) were higher, in view of the easing of cyclical conditions and high purchase prices the growth in 1970 was considerable.

In 1970, too, mineral oil contributed most to the consumption increase. Oil increased its share in total primary energy consumption from 51.8 p.c. (1969) to 53.7 p.c. (1970). Moreover, the increase in the consumption of natural gas was considerable. The proportion of lignite and hard coal declined from 41.0 p.c. to 37.4 p.c.

**Indian Eco-  
nomic Dele-  
gation in the  
Federal Republic**

An Indian economic delegation visited the Federal Republic of Germany from January 11 to 21, 1971. The delegation consisted of 12 Indian economists and was led by the President of the Indian Association of Chambers of Industry and Commerce (FICCI), P.C. Kothari. The visitors were mainly concerned with an increase of Indian exports to the Federal Republic and further investments by the German industry.

The Annual Register 1970  
of the Monthly Review  
of International Trade and Development  
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What has happened to the Trade Act of 1970 is a deviation from U.S. trade normalcy having been improvised chiefly as a device to bring the in-calcitrant Japanese textile dealers to the negotiating table in order to arrive at a voluntary agreement of the American textile market. How did this Bill come about in the first place? Probably, it was a delayed reaction to continued discriminatory practices against U.S. imports by many nations insisting on a "take all — give nothing" policy. Non-tariff obstruction to U.S. exports has been a complaint of long standing, and added to this the importation of textiles growing at 20 to 30 p.c. annually, triggered a major reaction. It is unlikely that growing unemployment, even in the textile industry, played a significant role in the coming on of the Bill, but it is now exerting a growing impact on Congress in the same direction.

The original Bill carried strong escape clauses to be administered by the President so that the mandatory aspects, also of countervailing and anti-dumping duties, were reduced. The Senate Finance Committee, however, eliminated these provisions making the Bill stronger and tying it up in its entirety with Domestic Welfare Reform and Social Security payments. A strong group of Senators has been doing everything to prevent the Bill from reaching enactment with the result that on December 22, 1970, this Conglomeration Bill died. However, it is expected that a modified version of the Bill will be fought over in the next Congress.

#### **Principal Purpose of the Bill**

The European alarm about the Bill somewhat misjudges its direction, the principal purpose of it being aimed at low-wage costs imports from Asia. The Quota Bill probably brought back the shadows of the tragic thirties when the Smoot-Hawley-Act of 1930 reversed previous efforts toward lower tariffs. Actually, that Act had nothing to do with the quotas and not even increased duties excessively—from an average of 44 p.c. on dutiables to 50 p.c. Retaliation and boycott, however, did follow then and it remained reserved to France to take the historic first step in imposing quotas—as administrative device—to exclude U.S. wheat exports.

Assuming that this much opposed Mills Bill or a similar one were to become law, in one form or another at some future date, what would be the damage to imports? Chairman Mills spoke of \$500 mn total import reductions annually as a result of the bill; other experts calculated that

it might affect 7 p.c. of the dollar value of imports if all proposed restrictions on textiles, shoes, etc. were to become law (affecting \$500 mn of Common Market exports to the U.S.). Secretary Stans of the Commerce Department continues to emphasize that the Quota Bill is designed exclusively to delay the flood of certain imports in order to prevent a disruption of the market. Otherwise, present job losses in the textile industry estimated at 100,000 annually, would continue for several years. As soon as the U.S. textile industry has a better chance, he argues, to adjust itself to new conditions, the quota would be eased or removed in its entirety.

#### **Conclusions**

In summary, the present Trade Bill seems to represent a stronger move of the Senate Finance Committee relative to that of the House, but not a conservative one. Senator Goldwater, for example, is fighting against this bill. The President clearly visualizes the potential international consequences of a threatening trade war and continues all efforts to soften the blow. Specifically, he rejects quotas on shoes and objects to the changed escape clause in the modified bill. Contrary to the earlier House Bill provisions, the Senate Finance Committee refused to repeal the "American Selling Price System" and eliminated the Administration-backed proposals of Tax Incentives for Exports (DISC). The President, however, agrees with those proponents of the bill who reiterate that the intent of its textile section is to encourage a negotiated agreement with Japan. Whatever this "quota deviation" means, it should not be assumed that the U.S. is "going protectionist" now. In fact, the government supports the recent recommendations of the International Chamber of Commerce to start a new round of trade liberalization after the European Economic Community has successfully concluded its basic negotiations for expansion. The objectives of the "President's Commission on World Trade" and of the "Emergency Committee for American Trade" are very similar, too. Considering all facts surrounding the proposed trade legislation, no real American quota system is in the making. Furthermore, a passage of this or any similar bill in the next Congress, unless much watered down, is not too likely, and the veto of the President yet a good possibility. At worst, any provision written into this law will be only a temporary experience and even in this case we would be dealing not with rigid but flexibly growing quotas according to the speed with which the U.S. economy can adjust itself to these new international trading conditions by greater mobility of domestic capital and labor.