Foreign Trade and the Balance-of-Payments Situation

Statement by Acting Secretary Ball [1]

This subcommittee has requested that I discuss with you this morning the role of foreign trade in helping to improve our balance-of-payments situation. You have also requested that I outline the State Department's plans and expectations with regard to the new Trade Expansion Act.[2] As the subcommittee noted in its request to me, the President has just appointed Mr. Christian Herter as his Special Representative for Trade Negotiations under the new act.[3] When he has assumed office, Mr. Herter will be able to provide a more definitive and detailed projection of the administration's proposed action under the act.

This subcommittee has received ample and expert advice on our balance-of-payments problem. An impressive series of recent studies has been prepared for the committee on factors affecting the United States balance of payments. You have heard the testimony of other officials of the administration. I am sure that I need not undertake to review the history of the Nation's position in world trade.

I propose also to take it as given that the United States must find the answer to its balance-of-payments problem primarily through a favorable trade balance in goods and services. We cannot afford any significant cutback in our foreign aid or military commitments. We are entitled to look forward to an increasing participation in these commitments by the other industrialized nations of the West, and we are working constantly toward this objective. But this transition takes time, and our balance-of-payments problem is immediate.

History, as well as analysis, demonstrates that it is realistic to look to an expanded trade surplus as the major instrument for resolving our balance-of-payments problem. For example, when we had a large balance-of-payments surplus, in the years 1946 to 1949, our surplus of exports ran at an average of $6.9 billion per year; when we had an overall deficit, in the years 1950 to 1956, our trade surplus averaged only $2.4 billion per year. In the Suez crisis year of 1957, when we last enjoyed an overall surplus, our trade surplus was $6.1 billion.

To use another illustration, in the years 1959 to 1960, when our trade surplus averaged $3 billion per year, our balance-of-payments deficit averaged $3.7 billion annually; but when, in the 18 months of 1961 through the first half of 1962, our trade surplus nearly doubled to an annual average of $5.2 billion, our deficit correspondingly was nearly cut in half to an annual rate of $2 billion.

Other factors may intervene, as in 1960, when our trade surplus resumed substantial proportions while our payments remained in deficit. But as a generalization we may sensibly look to a favorable balance of trade as the key to a satisfactory balance of payments.

Restricting Imports

It is obvious that a favorable balance of trade may be struck either by reducing imports or by raising exports. For the United States restrictions on imports are impractical and dangerous.

[1] Made before the Subcommittee on International Exchange and Payments of the Joint Economic Committee on Dec. 13 (press release 727).

[2] For an article by Leonard Weiss on the Trade Expansion Act of 1962, see BULLETIN of Dec. 3, 1962, p. 847.

[3] *Ibid.*, p. 846.

The agreement provides for reductions of 20 percent in U.S. duties on 17 items (on basis of Schedule A classifications). U.S. imports from all countries of the products covered by the compensatory concessions amounted to $12.2 million in 1961, of which the United Kingdom supplied $9.3 million.

The products of largest trade coverage included in the trade agreement are: certain electric motors over 1/10 horsepower and under 200 horsepower, certain packaging and wrapping machines containing an electrical element, mustard, certain flax threads and flax yarns, lawn tennis balls, oil-tanned chamois leather, and fancy goat and kid leather.

The agreement was entered into within the period provided for in section 257(c) of the Trade Expansion Act, which extends until December 31, 1962, the period for concluding, under section 350 of the Tariff Act of 1930, trade agreements based on public notices issued in connection with the 1960–61 tariff conference.

SCHEDULE OF U.S. CONCESSIONS

SCHEDULE OF COMPENSATORY CONCESSIONS TO UNITED KINGDOM

Tariff paragraph	Schedule A No. 1957	Description	Rate of duty: July 1, 1958	Rate of duty: Jan. 1, 1963	Rate of duty: Final stage	U.S. imports from U.K., 1961 ($1,000)
5	8350110	Sodium alginate	12½% . . .	11% . . .	10% . . .	210
207		Clays, common blue and ball:				
	5310170	Unwrought and unmanufactured	85¢ ton . .	73¢ ton . .	62¢ ton .	207
	5310180	Wrought and manufactured	$1.70 ton .	$1.45 ton .	$1.21 ton .	
222(b)		Plate glass containing a wire netting:				
	5220200–5	Not over 384 sq. in.	5¢ sq. ft . .	4.5¢ sq. ft .	4¢ sq. ft . .	205
	5220210–5	Over 384 and not over 720 sq. in	6.6¢ sq. ft. .	5.9¢ sq. ft .	5.25¢ sq. ft.	
	5220220–5	Over 720 sq. in	7.65¢ sq. ft .	6.8¢ sq. ft .	6.1¢ sq. ft .	
312		Structural iron and steel:				
	6081200	Sashes and frames.	12½% . . .	11% . . .	10% . . .	313
353		Electric motors (stationary, railway, vehicle, and other, n.e.s.):				
	7090360	Over 1/10 h.p. and under 200 h.p	10½% . . .	9½% . . .	8½% . .	2, 951
353		Machines and other articles having as an essential feature an electrical element or device, n.e.s.:				
	7100550	Machines for packaging pipe tobacco; machines for wrapping cigarette packages; machines for wrapping candy; and combination candy cutting and candy wrapping machines; and parts.	10% . . .	9%	8%	337
781	1538000	Mustard, ground or prepared	4.25¢ lb . .	3.8¢ lb . .	3.4¢ lb . . .	341
920	3200000	Lace window curtains, nets, nettings, pillow-shams, bed sets, and articles and fabrics, plain or Jacquard figured, made of vegetable fiber on the Nottingham lace-curtain machine.	40% . . .	36%	32%	218
1004(a)		Single yarns of flax, flax and hemp or ramie, or both:				
	3270100 3270400	Not finer than 60 lea	25%	22½% . . .	20%	1, 236
1004(b)(c)		Threads, twines, and cords:				
	3272400	Flax, less than 3/16 inch in diameter . . .	30%	27%	24%	295
1502		Rubber balls:				
	2045000	Lawn tennis	12½% . . .	11%	10%	705
1502	9433300	Table tennis balls	20%	18%	16%	154
1530(c)	0335800	Chamois leather, oil-tanned	15%	13½% . . .	12%	1, 291
1530(d)		Grained, embossed, etc., or fancy leather:				
	0345250	Goat and kid	12½% . . .	11%	10%	787
						9, 250

As the President said on February 6, 1961, in his message to Congress on balance of payments and gold:[4]

> A return to protectionism is not a solution. Such a course would provoke retaliation; and the balance of trade, which is now substantially in our favor, could be turned against us with disastrous effects to the dollar.

There are several reasons why the administration has made its firm and conscious decision not to restrict imports in an effort to increase our trade surplus.

In the first place, our imports are made up to a great extent of raw materials and other goods which we do not produce. We need these materials and it makes no sense to exclude them.

In the second place, restrictions on imports invite retaliatory restrictions with respect to our own exports. Particularly for a country like the United States, which has a substantial trade surplus, the cost in retaliation would certainly be greater than any saving we could realize by restricting imports. The United States is the largest exporting country in the world—and it is exports that must cover our payments deficit.

Third, curtailment of purchases by us from other friendly countries and allies can have serious repercussions on these countries and thereby weaken our combined strength in the defense of the free world.

Fourth—and this point is seldom given the place of importance it deserves—the United States today plays a leading role in setting the direction of the free world's trade policy. If the United States should retreat to protectionism, it would have instantaneous effect on the policies of the rest of the world trading community. Many nations would revert to the self-defeating particularism that we have for 30 years struggled to overcome. The United States, particularly in conjunction with the European Economic Community, has it within its power to lead the free world toward a rational and open competitive international economy. We should throw this opportunity away if we were to embrace the false solution of import restrictions.

Finally, imports help us in another way. Imports are a tonic to the growth of our own economy. One may adapt Hippocrates to economics: Strength grows through use; disuse produces weakness. This has been clearly demonstrated by the experience of the European Common Market. As Walter Hallstein, President of the European Economic Commission, remarked last week:

> Sharper competition is the natural consequence for all concerned on both sides of the Atlantic. I am, however, inclined to regard this too as an asset. From more than four years' experience with the Common Market, we have learned that brisker and keener competition brings advantages—not disadvantages—for everybody. We all become stronger as we vie with each other. For instance, two states as highly developed as Germany and France have given up 50% of their tariff protection in a relatively short while, and at the same time the economies of these two states have been striding forward at an almost unprecedented pace.

Clearly the solution to our balance-of-payments problem does not lie in the restriction of imports.

I do not mean to say in a doctrinaire manner that there can never be situations in which it may be necessary to adopt measures that have an effect upon the flow of imports. For example, in a special situation of customs exemption the Congress recently lowered from $500 to $100 the amount of duty-free goods which American tourists may bring home with them. In order to reduce governmental expenditures abroad, the Department of Defense has been adjusting its programs to shift purchases from foreign to U.S. sources. This diversion of purchases to the United States suppliers avoids a further increase in foreign-held liquid liabilities, but it does so at the expense of an increase in the budgetary cost of our economic assistance and defense programs. In certain highly specialized situations, where a serious market disruption threatens, as in the case of cotton textiles, it has proved possible to achieve international agreement based upon a degree of voluntary export restraints. And in a handful of instances it has been found necessary for reasons of national security to impose import restrictions.

With these limited and special exceptions, however, the administration has held firmly to its conviction that the solution to our balance-of-payments problem cannot be found in restricting imports. We must look to the export side of the equation for our answer.

Competitive Ability

The fear is sometimes expressed that our balance-of-payments problems are primarily due to a long-range deterioration in our competitive position on world markets. I disagree with this de-

[4] *Ibid.*, Feb. 27, 1961, p. 287.

featism. Our ability to compete cannot be quantitatively measured with any precision merely by the analysis of relative costs of production. Over the years we have a creditable record in world competition in spite of trade barriers, and in spite of the fact that large segments of American industry have found ample outlets in American markets and have thus made no great effort to develop their export potential. We are the world's largest exporter and have been for many years. Our balance of trade has consistently been favorable. As a share of total world trade our exports (exclusive of transfers under military grants) have been substantially constant since 1953.

If we were losing competitive strength one would expect to find some evidence of it on the import side, but no such evidence exists. Since 1959 our imports have been relatively constant in comparison to domestic sales of commodities and have declined in comparison to our gross national product.

As a further test of our ability to compete, consider our trade with Japan and with Western Europe. We continue to export more to Japan than we import from her. As for Western Europe, while both imports and exports have increased substantially in recent years our exports have increased faster than our imports. These data hardly indicate a wilting or decadent United States economy unable to withstand the fresh breezes of international competition.

Those of little faith in our ability to increase exports seem also to misassess the soaring world demand for the products that the American economy produces best. This demand is expanding so rapidly that there should be plenty of room for all producers to grow. Rising demand is a phenomenon known throughout the world. It is most dramatic in the European Common Market and Japan.

The six member nations of the Common Market[5] (the European Economic Community) now have a population aggregating 170 million. If the United Kingdom becomes a member, the total population will approach 250 million. The total gross product of the present six member nations of the Community is expected to rise from its present level of $181 billion to $288 billion by 1970—an increase of almost 60 percent. On the basis of past experience, a 60-percent increase in gross national product will bring with it a comparable increase in demand for imports—and the United States is the largest supplier.

Europe is presently at a far earlier stage of consumption than the United States. For every 1,000 inhabitants in the United States, there are 340 automobiles; in the Common Market there are 78. In the United States there are 1,030 radio sets for every 1,000 inhabitants and 315 television sets; the corresponding figures in the Common Market are 244 and 60. Every indication is that the population in the Common Market countries is on the road toward the kind of consumer expansion experienced in the United States in the last 40 years. If American industry and agriculture are not excluded by artificial barriers, our opportunities in this market should be enormous.

Not only does the European market offer a vast potential for growth, but it is the kind of market best suited for American products. European industrialists have been accustomed to selling their products in small, narrow, national markets. They have built their industrial plants with that in mind. We alone in the free world have fully developed the techniques of mass production, for we alone have had a great mass market open to us. If American industry has the will and energy, and if access to the Common Market can be assured to it through the tools provided by the Trade Expansion Act, it should find in Europe new trading opportunities of a kind not dreamed of a few years ago.

Of course the development of the European market for American products will not be easy. It will make heavy demands on our imagination and ingenuity. It will require a considerable effort of merchandising of a kind few American firms have ever attempted in Europe, because in the past the potential of limited national markets has never seemed to justify the trouble. It will require us to do much more than merely ship abroad the surplus runs of the goods we produce for Americans. It will mean much greater attention to the tailoring of products designed expressly for European tastes or European conditions.

Yet I see no reason why American industry should not display the vitality and creativeness that have stamped its performance in the past. Industrial research in the United States continues at a level many times higher than that of Europe.

[5] Belgium, France, the Federal Republic of Germany, Italy, Luxembourg, and the Netherlands.

Each year American industry creates new products and processes responding to the high living standards of our people and creating the improved production techniques that will push those living standards higher still.

Our machinery industries, generating a continuous stream of new inventions for export to the world, are the acknowledged leaders of mass production systems. Our synthetic chemical products continue to provide most of the major advances in the world's new synthetic products—so much so that half or more of the sales of some of our leading producers consists of items that did not exist 10 years ago.

Finally I should like to take special note of the fact that exports are made up not only of tangible goods but also of services of every kind. One of the most important developments in the 20th-century economy of the United States is the shift from blue-collar work to white-collar work, from the production of tangible goods to the generation of services. Here again, in this aspect of the modern industrial society, the United States is in a position of clear leadership. This leadership shows itself in the export of services such as engineering, advertising, management, communications, and organizational skills. As Europe moves increasingly from a Balkanized economy to a mass economy, it will inevitably call more and more upon the skills and services which the economy of the United States has had to develop to cope with similar circumstances. We may safely predict that remittances for these exported services, already substantial, will continue to rise.

We are a creative nation. There is every reason to suppose that we shall remain so. We respond with vigor when the challenge is great enough. That we can turn our creative genius to use in this new and promising mass market of Europe and an awakening world I have no doubt.

Agriculture

Agricultural products play a vital part in United States exports. The subject of international trade in agricultural products is, as this committee knows well, exceedingly complex, and I will not seek to explore it today. I should like to make a note or two on this topic however.

It is obviously of great importance to our balance of payments—as well as to the economic well-being of an important segment of our economy—that we maintain and develop more agricultural markets in Europe. It would be highly unfortunate if the member nations of the European Economic Community were to replace their complicated national systems of agricultural protection by a common agricultural policy that was equally or more restrictive. This has been the subject of numerous discussions, representations, and consultations with European governments. Recently Secretary [of Agriculture Orville L.] Freeman made the United States position emphatically clear in Europe.[6] And I also made known our profound concern with regard to this question during the proceedings of the OECD ministerial meeting in Paris last week.[7]

I think it should be borne in mind that about two-thirds of our agriculture exports to the European Common Market consists of commodities that are not domestically produced in the member nations. These exports are, therefore, unlikely to be seriously affected by trade restrictions under the common agricultural policy. Some of our biggest export categories, such as cotton and soybeans, and probably even tobacco, will quite probably share in the expanded market of the growing European economy. It is only with the remaining one-third that difficulties may arise. This remaining one-third consists largely of grains—both wheat and feed grains—while another significant item is poultry.

Unquestionably over a period of time we can expect to see shifts in the emphasis of our agricultural exports to Europe. As the standard of living rises in the Common Market, consumer demand is likely to shift toward a greater consumption of proteins, which will be reflected in a tendency for our wheat exports to drop off while our feed grain exports increase. This tendency has already been noted.

As the committee is aware, the common agricultural policy, as it is being developed by the Community, will employ target prices, intervention prices, and—through the use of variable levies—gate prices. This repertory of controls is intrinsically neither liberal nor protectionist. The test will be how they are applied.

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[6] For text of a joint statement issued at Paris on Nov. 20 by the Ministers of Agriculture of the member countries of the Organization for Economic Cooperation and Development, see BULLETIN of Dec. 17, 1962, p. 942.

[7] *Ibid.*, Dec. 24, 1962, p. 979.

The crucial test, in fact, will come when the Community fixes the common price for grain. It will take its first decisions on this subject next spring.

Obviously it is of great importance to the United States that the Community adopt a system of low grain prices. We are giving serious consideration to the possibility that, rather than approaching the whole question of international trade in grains through bilateral negotiations, global arrangements may be preferable. Negotiation on these and many other aspects of agricultural policy will be continuously underway throughout the next year or two.

Program

Administration of the Nation's trade policy is now centered in the President's Special Representative for Trade Negotiations. From the beginning the Department of State has enthusiastically supported this administrative change made by the Trade Expansion Act. Trade matters cut across the concerns of many departments of the Government, and the special concerns of all should be given proper weight.

The administration's trade program will take form under the guidance of Mr. Herter. A broad time schedule can however begin to be discerned at this time.

The calendar year 1963 will have to be devoted in large measure to preliminary negotiations looking forward to formal negotiations in 1964. A special working committee of the GATT [General Agreement on Tariffs and Trade] is already turning its attention to the 1964 round. Within the United States 1963 will be the year for the preliminary procedures required under the Trade Expansion Act prior to any tariff negotiation. Work on these preliminary steps is underway. Continuous negotiations will proceed with the European Economic Community, particularly as the outlines of the Common Market's commercial policy begin to assume form and as the position of the United Kingdom and other countries vis-a-vis the Common Market gradually crystallizes.

The years 1963 and 1964 will be a time when the world's whole underlying economic structure is being redesigned and rearranged. With the Trade Expansion Act in hand, the United States should be equipped to play a central role.

Congressional Documents Relating to Foreign Policy

87th Congress, 2d Session

Particleboard. Hearing before the Senate Finance Committee on H. R. 12242, an act to provide for the tariff classification of certain particleboard. October 3, 1962. 20 pp.

Design Costs of Unbuilt Vessels and Suspension of Tariff Schedules. Hearings before the Subcommittee on Merchant Marine of the House Merchant Marine and Fisheries Committee on H.R. 10181, identical and similar bills, to relieve ship operators of part of the cost of designing vessels as required under operating differential subsidy agreements, and S. 804, to amend the act of March 3, 1933 (47 Stat. 1426), relating to the length of time by which the Federal Maritime Board may suspend tariff schedules. June 12–26, 1962. 66 pp.

Fair Trade. Hearings before a special subcommittee of the Senate Commerce Committee on S. 1722, a bill to amend the Federal Trade Commission Act, as amended, so as to protect and equalize rights in the distribution of merchandise identified by a trademark, brand, or trade name. July 25–August 28, 1961. 165 pp.

Report on the Inter-American Highway and Rama Road. Hearing before the House Public Works Committee on H.R. 11973, to authorize the appropriation of adequate funds to provide the completion of the construction of the Inter-American Highway, and for other purposes. August 30, 1962. 31 pp.

Mobile Trade Fairs. Hearing before the Subcommittee on Merchant Marine of the House Merchant Marine and Fisheries Committee on H.R. 12533, to amend the Merchant Marine Act, 1936, to develop the American merchant marine and promote the foreign commerce of the United States through the use of mobile trade fairs, and S. 3389, to promote the foreign commerce of the United States through the use of mobile trade fairs. August 30, 1962. 90 pp.

Agency for International Development Contract Operations (Office of Research, Evaluation and Planning Assistance Staff). Hearings before a subcommittee of the House Government Operations Committee. Part 2. September 10–11, 1962. 204 pp.

Testimony of a Defector From Communist China. Hearing before the Subcommittee To Investigate the Administration of the Internal Security Act and Other Internal Security Laws of the Senate Judiciary Committee. November 29, 1962. 16 pp.