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POLICY STATEMENTS

6/84. TRADE: THE NEED TO HALT PROTECTIONISM

Mr. Norman Tebbit, the Secretary of State for Trade and Industry, in Washington on February 8, 1984:

If the economic recovery is to spread and strengthen, it is clearly vital that an outbreak of protection be avoided, especially by countries, like the United States, in the van of economic recovery, Mr. Norman Tebbit, the Secretary for Trade and Industry, said in a hard-hitting speech in Washington on February 8.

Speaking to the U.S. Chamber of Commerce and the Washington Export Council, Mr. Tebbit said that recent actions by the U.S. Administration had been worrying. There were the measures introduced against special steels last year and the more recent action on imports of textiles. These actions, he said, carried a message to other domestic industries and made resistance to future protectionist demands that much harder.

Mr. Tebbit said:

"A casual reader of the U.S. or British press in the recent past could be forgiven for thinking that the long standing friendship between our two countries has become less close; that our mutual understanding is under threat on an uncomfortable number of issues. And yet at heart our relationship remains sound.

"The reality is that what unites is very much more important than what divides us. The very importance of the North Atlantic relationship perhaps serves to give greater prominence than may always be justified to the differences which arise between us, some of which I will be touching on in a moment.

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"Yet there is an equal or greater danger in giving too little attention to our problems, in ignoring the cumulative effect of small stresses; and of acting as though long-standing friends had less need than strangers to take account of each other's views and concerns.

"Nothing could be further from the truth; and because I continue to believe firmly in the relationship between our countries I propose to do some frank thinking aloud.

Problems of Extraterritoriality and Unitary Taxation

"Let me mention first the most persistent source of tension between us: your claims to be able to impose your laws on people in other countries, inside their own homes and their businesses -- what we call extra-territoriality and what over here is sometimes referred to soothingly as 'Conflicts of Jurisdiction'.

"Would you call it that, I wonder, if we tried to use our law to govern the conduct of firms here in the U.S. simply because they happen to be substantially controlled by British parents or using equipment brought from the U.K.? I believe that sooner or later you will have to agree that these U.S. practices are not acceptable.

"For the moment the best we can do, perhaps, is to keep our disagreements to a minimum by frequent and realistic discussion. Today, here in Washington, a team of U.K. officials is doing exactly this with their opposite members in the U.S. Administration. Let's hope that is fruitful.

"Another issue on which, despite its great importance, I don't propose to dwell upon today is the problem of unitary taxation. We, our Community partners and other industrialized countries have made clear our very strong objections. I merely make the point that bad habits are catching and if Americans' bad habits on unitary taxation spread around the world, you in this room will be the losers.

Trade: To Reverse Protectionism

"I want to talk mainly about trade itself. Trade is a ready example of an area in which our countries have common interests and shared views but where contradictory actions threaten our understanding.

"We are both major trading nations. The U.K. because we export a higher proportion of our total output than

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almost any other major industrialized country; the USA because of the sheer volume of your exports. Exports of course represent a smaller percentage of U.S. GNP than in the case of the U.K., but I have seen it estimated that, in recent years, four out of five new jobs in U.S. manufacturing have been created by international trade. We both share a vital interest in fostering international trade.

"It is natural therefore that on at least three occasions in little more than a year (most recently at the Williamsburg Summit) we have declared our determination to preserve the liberal trading system and to halt and reverse protectionism. In Europe the recovery of the economy is so far much slower than here in America. But already our Community has announced the measures it plans to take to start the rollback. I trust the United States, and other countries, will soon follow suit. We Europeans are not going to rollback on our own.

"As Bill Brock put it in his account of the outcome of the first of these multi-lateral meetings -- the GATT Ministerial meeting in November 1982 -- 'We must put an end to the spread of world-wide protectionism, or protectionism will put an end to our economies. We either trade more and create more employment, or we trade less and create more unemployment. The choice is clear.'

British Concern Over Protectionist Pressures in U.S.

"I wish I could say the actions were compatible with the words.

"For a country as dependent on trade as the U.K., there is really no choice. Because of our extreme sensitivity to changes in the international trading environment we have very great concerns over protectionist bills now before Congress -- the Auto Domestic Content Bill, the Fair Trade in Steel Bill and all the rest. Of course, I do not wish to make the mistake of confusing moves in Congress with the policies of the Administration. I recognize and welcome that the Administration has said that it will not support any legislation which contravenes U.S. international obligations; and this would seem to us to rule out many of the measures which have been put forward.

"But domestic pressures for protection are high in most industrialized countries and are likely to remain so until the emerging recovery really feeds through. It is always politically difficult to resist calls for protection.

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"In an election year it is particularly worrying to learn -- as I did not long ago -- that in a recent U.S. poll 60 percent agreed that imports should be restricted because they threatened jobs. It is thoughts such as these which make recent actions by the U.S. Administration -- perhaps of limited effect in themselves -- so worrying. I am thinking, of course, of the measures introduced against special steels in the middle of last year (just days after the Williamsburg Summit with all its fine words). We, in common with our Community partners, continued to regard that action as unjustifiable and having failed to secure satisfactory compensation we propose to exercise our rights under the GATT to impose comparable penalties on U.S. exports.

"I am thinking, too, of the more recent action on imports of textiles.

"Although the precise nature and likely effect of the decision on textiles in December are unclear, it is another unsettling element which undermines confidence in U.S. commitment to free trade. Like the action over steel, it carries a message to other domestic industries and makes resistance to future protectionist demands that much harder.

"I am certainly not trying to gloss over the protectionist pressures which we have experienced -- often very strongly, especially at the depth of the recession -- in the U.K. and Europe; or to pretend that they are always resisted with total success. But I can tell you very plainly that the Government of which I am a member is determined to make sure that the U.K. continues to be one of the most open markets in the world. About 80 percent of our imports entered duty free -- that's more than twice the proportion in the USA -- and at the last count we found that only 6 percent of our imports of industrial products were subject to some form of non-tariff restraint. And remember that the Government was re-elected on a firm open trade platform, despite our current high level of unemployment. If Britain -- a small off-shore island -- has the courage to face the competition, why do you lack confidence in yourselves?

"Our determination to maintain liberal trade is of course not philanthropy but self-interest; a recognition of our dependence on trade and a certainty that our industry becomes more efficient in the face of competition. In short, what most economists would tell you and what the U.S. Bureau of Economics said in trenchant terms in its 1980 study of the costs of protectionism -- that

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protectionism generates significantly greater costs than benefits.

"Every new measure on steel, textiles or whatever ensures that you are steadily increasing those costs on yourselves. Not least of the many contributions made by the United States to the rest of the world is your Nobel Prize winner's dictum: 'There is no such thing as a free lunch,' or, I must point out, a free policy of protectionism.

The British Experience

"In the U.K. it is now accepted that we must keep a clear eye on the underlying causes of our economic difficulties and to avoid the temptation of merely attacking the symptoms.

"Between early 1979 and 1981, U.K. cost competitiveness fell by over 50 percent, partly as a result of the appreciation of the £ sterling (by some 23 percent) and partly due to rapid growth of wage costs. But we kept our market open. Since then we have recovered about two-thirds of the cost competitiveness which we lost over the period. A good part of that improvement in relation to the U.S., of course, results from the appreciation of the dollar.

"But this is not the whole story: output per man hour in the U.K. increased by 10 percent between 1980 and 1982, over double the increase in the U.S. and better than other industrialized countries. And in most sectors of industry we have seen how quality, reliability and the capacity to deliver on time have all improved significantly at the same time. And we have succeeded in cutting inflation from about 18 percent in 1980 to round 4.5 percent now; admittedly still a little higher than the U.S. figure but from a considerably higher base.

"We have of course paid a price for our improved competitiveness. The unemployment I referred to just now increased from a rate a little below that of the U.S. in 1980 to well above in 1981 and 1982. And it remains disturbingly high.

"So I hope you will understand my impatience with comments which seem to be offered as a defense for protectionist measures, that while the U.S. has succeeded in cutting wages and prices, with American workers accepting unprecedented economic adjustments, the Europeans have made no such adjustments, and 'are just going their merry way' to quote Bill Brock a couple of months ago. At least we in the U.K. have not financed our merry-making by growing deficits.

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The Shifts in Exchange Rates

"I think we would all be better off -- and better able to avoid a damaging series of disputes in this coming year -- if we were to avoid the temptations of scapegoat-hunting and looked at the real causes of economic problems and competitive pressures. In recent years, shifts in exchange rates have probably been one of the major influences on changes in patterns of trade. U.S. exports certainly grew rapidly when the dollar was falling in 1971-4 and in 1977-80; and fell when the dollar appreciated in the intervening period.

"The upswing from 1980 has again affected U.S. exports; just as the massive appreciation of the £ in 1979-81 hit U.K. competitiveness and in turn our trade performance. But the solution to the domestic problems which such trade fluctuations cause lies in general economic policies and adjustments and not in resort to trade protectionism, tempting though the immediate relief which it offers may seem.

Allegations of Industrial Targetting

"The search for scapegoats also seems to lie behind some of the allegations in the USA of Government industrial targetting policies of trade competitors. I doubt whether any developed market economy is entirely without an industrial policy, just as we all have agricultural policies, though we shall indeed be lost if ever we come near to the degree of intervention in industry that we have indulged in on both sides of the Atlantic in the farming area. But that is another story.

"Those of us who believe very firmly in the free market -- in the United States and in Great Britain -- endeavor by our general economic policies to create a climate in which market forces can operate effectively and enterprise can be rewarded. Most of us would cite certain of our industries as having strategic significance and therefore requiring a degree of special treatment. And none of us is without policies to ease the social strains of major structural adjustment.

"Treasury Secretary Regan has talked about the choice being 'between having economic allocation decisions made by the millions acting in the free market place or by a handful of government planners acting collectively in a political arena.' We all know that it is not as simple as that.

"Take defense: does the Administration never think about industrial implications when considering procurement

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options? Take the manufacturing technology program: Billions of dollars over the years spent on helping firms develop new manufacturing technology. Take anti-trust: Is there not a conscious movement to relax the grip of the Sherman Act to allow U.S. firms more room to maneuver against foreign competition? Who decided to release IBM?

"And what else is the insistence on continued Japanese restraint in the export of automobiles but an attempt to ensure the regeneration of a particular sector of U.S. industry? I am not making any judgements on these policies as such. But I do find it hard to accept charges against the Europeans of industrial targetting especially in those precise sectors where the prospect of a U.S. or even a single U.S. company world monopoly seems to be met over here with bland indifference or even positive enthusiasm. Surely the U.S. can accept -- as we had to accept -- that a combination of Government policy and world events have driven your currency to a level which damages your competitiveness and adversely affects your trade. That is not the fault of us foreigners -- nor should you pass the bill for your policies to us.

The Majority of U.S.-E.C. Trade "Takes Place Normally"

"In thinking aloud among friends, I may seem to have presented too gloomy a picture. My aim, however, has been to illustrate the problems which we must tackle openly, rather than to create undue pessimism. In fact, the overwhelming majority of trade between the U.S., and the U.K. and the European Community as a whole, takes place normally and without interruption. The U.S. is once again the U.K.'s main export market; and, by contrast with past years, our visible exports to the U.S. exceed our imports, largely as a result of North Sea oil exports. But the benefits are far from one-sided. The U.K. is the U.S.'s largest invisible trading partner and the fourth largest purchaser of U.S. goods. At the Community level, total trade flows are worth some \$90 billions (goods and services) and in 9 of the past 10 years, the trade balance was in favor of the U.S.

"Levels of investment too show the underlying health of our relationship. American investment in the U.K. of some \$30 billions represents a third of all U.S. investment in the European Community. But the flow is not one way. Britain is now the largest foreign investor in the U.S. with accumulated total investments in excess of \$23 billions.

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An Outbreak of Protectionism Must Be Avoided

"But what is at stake now goes beyond our mutual interests in trade flows and investment levels. We have seen and welcomed the recent vigorous recovery of the U.S. giving impetus to emerging recovery elsewhere, with the OECD now forecasting an acceleration of growth in member countries (from 2.5 percent in 1983 to 3.5 percent) in the current year. If this recovery is to spread and strengthen, it is clearly vital that an outbreak of protection be avoided, especially by those countries in the van of economic recovery.

"Let me repeat some of the words of Bill Brock which I quoted earlier: 'We either trade more and create more employment, or we trade less and create more unemployment.' As close and long-standing friends it seems to me vital that we think aloud sufficiently frankly and frequently to ensure that we make the right and only sensible choice.

"Bluntly, the wrong choice would not just be the wrong choice for the American economy. It would be the wrong choice for Western security, the NATO Alliance and all that hangs upon it."

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