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The Challenge of a New Era in World Trade

Next Monday in Washington the Congress will begin hearings on a crucially important legislative proposal that is designed to keep this Nation moving ahead -- strong and prosperous -- in an increasingly competitive world. I refer to President Kennedy's sweeping new trade program.

The overriding aim of that proposal is to bring the United States into step with the dynamic new era in world trade that opened less than ten years ago with the formation of the European Coal and Steel Community. Soon after, six European nations agreed to remove trade barriers and foster economic and political cooperation between them within a Common Market. That brilliant experiment, which rode the wave of European expansion, has been fabulously successful -- and its success has created a major challenge for the United States States.

The challenge is simply this: are we going to compete with the Common Market on equal terms -- or are we going to step aside because we are afraid to compete?

In making our decision, we must bear in mind that the Common Market will profoundly influence trade among all free nations. We should also bear in mind that our decision to compete or to step aside will have far-reaching consequences -- not only for the United States and the Common Market countries, but for every free nation, developed or developing, with a stake in world trade.

Our decision may well determine whether the free world of the future will be a close-knit, cooperative alliance of thriving nations, or a loose coalition of trading blocs, each with its own economic interests, and each a potential political rival of the others.

President Kennedy has clearly charted the direction we should take. He has called upon the Congress to replace the old Reciprocal Trade Act -- which has been extended eleven times in of freer trade, it must be a world in which decisions to invest at home or abroad are not based on tax incentives, but on genuine economic factors. Although we cannot change foreign tax laws, we can, if we wish, see to it that American capital is taxed in similar fashion wherever it may be. This does not mean that we look with disfavor on foreign investment -- provided it is based on economic considerations, rather than tax favoritism which discriminates against investment at home. We propose, of course, to leave intact the present tax advantage for investment in underdeveloped nations. This is appropriate because such investment not only involves a greater risk, but because it also serves a vital purpose in adding to the potential economic strength of the free world.

In addition to our tax and trade policies, we are employing other measures to expand exports. One deserves particular mention. It is a new program of insurance against both commercial and political risks in export trade which was recently begun by the Export-Import Bank in cooperation with fifty-seven private insurance companies. This program offers our exporters for the first time insurance comparable to that available to their European and Japanese competitors.

Recent and proposed export promotion measures should begin to show results sometime this year -- although their full impact may not be felt for two years or more. Such measures cannot succeed, however, if American products must surmount a barrier of high tariffs abroad. This is why President Kennedy has asked Congress to give him the authority to negotiate effective tariff reductions and allow our goods to enter foreign markets on a competitive basis.

But negotiating is a two-way street, and the President must have the power to lower our tariffs as well. At present he has authority only to negotiate for one item at a time -- bargaining the wall down brick by brick. This slow process will not work with the Common Market, which has already reduced its internal tariffs about forty percent and is moving ahead of schedule. We can't keep pace under the present authority.

This was made clear in the announcement yesterday by President Kennedy of the conclusion of tariff negotiations with the Common Market and 25 other countries at Geneva. Largely because of the difficulties imposed by our current law, those negotiations were extraordinarily complex, and it is no exaggeration to say that they used up all the available authority given to the President under our present legislation.

We achieved agreement stabilizing or reducing tariffs on $4.3 billion a year in export items, whereas our concessions covered only $2.9 billion in imports. The agreements, although excellent, are only a start of really effective action to take advantage of the opportunity of this expanding market. If we are ever to seize this opportunity, we must give our negotiators real power to bargain. Without it they are helpless to protect the vital interests of our farmers and businessmen in the negotiations ahead.

Finally, negotiations take time -- the last round took 17 months -- and there is always a delay before the agreements become effective. If we are to make significant progress, we cannot afford to lose time. It is important to provide a new trade program -- and it is also important to provide it without delay. President Kennedy's new trade proposal will give him authority to bargain for whole groups of products at once. Only in that way can effective tariff reduction be negotiated with the Common Market.

The time for decision is running out. So far, our role as a supplier and customer of the Common Market has been steadily picking up momentum. But the potential for progress, prosperity, and growth, dammed up behind internal European trade barriers, is being let loose as those barriers are taken down, and the result is a torrent of trade between the Market countries. For example, West German trade with the other five Common Market countries rose last year about twice as fast as her total foreign trade. We must act promptly to demonstrate to Europe that we intend to take an active part in the new trade era. Prolonged inaction -- or inadequate authority -- could defeat this purpose.

Since it came into being almost five years ago, the Common Market has grown -- in terms of gross national product -- at roughly twice the rate of the United States. With the proposed addition of the United Kingdom and other full and associate members, it would have a population substantially larger than ours, with an economy which would also rival ours. Equally important, it would have -- in time -- a single external tariff barrier, just as we do. The profit potential for us in the Common Market is clear. European highways are jammed with shiny new cars, luxury shops are crowded with eager customers, new stores are constantly opening their doors. These are all signs -- so common in America -- of a high-income, high-consumption economy. Thousands of familiar U. S. products are unknown in Europe, and even though Europe's shop-windows are well-stocked, they can hold a great deal more. For American manufacturers the development of this new Europe could be a bonanza.

One of the most frequent arguments in opposition to the trade program is that lowering our tariff barriers would open us to a flood of low-wage foreign competition that would damage our domestic industries.

No one, of course, can rule out the possibility of some damage to domestic industry. Such damage as might occur, however, would be limited to a relatively small proportion of our overall economy. While some individual companies might suffer, there is no evidence to support any prediction of economic damage to our economy as a whole. To assist the adjustment of industries and localities to whatever harmful competition might develop, President Kennedy has proposed a trade adjustment program. It will also provide, wherever necessary, for retraining workers for new jobs. A similar program inside the Common Market has proved highly successful in smoothing over the rough spots that have developed as the member countries moved toward complete free trade among themselves.

Here are some facts to be considered in evaluating the threat of low-wage foreign competition:

-- Our high-wage industries usually do much better in export markets -- and suffer less in import markets -- than our low-wage industries.

-- Despite the fact that our wage rates in many cases are double or triple those of our competitors, the United States exports much more to foreign markets than any other nation.

-- We sell far more abroad than other countries sell to us. Last year our trade surplus, excluding aid-financed exports, totaled $3 billion.

-- About sixty percent of our present imports do not compete with domestic goods, either because they are products we do not produce in this country, or at least do not produce in any significant quantity.

-- And finally, it is not unit wage cost, but overall unit cost that is important in determining competitive prices. An American coal miner, for instance, is paid eight times as much as a Japanese miner, but we still sell tens of millions of dollars worth of coal to Japan every year. Part of the explanation is that the American miner produces coal about fourteen times faster than his Japanese counterpart, so our overall unit cost is smaller.

While the fact that foreign wages are lower than ours does not in itself make foreign manufacturers more competitive than our own -- and while considerable pressure is building up to drive foreign wages higher -- this does not mean that we can afford to ignore the importance of our own wage-price structure. On the contrary, our wages and prices are all-important in determining our competitive position against foreign producers, both in domestic and overseas markets.

From 1955 to 1957, for instance, U. S. wages and prices in a few key exporting industries rose substantially in relation to those in Europe, and during that period, our share of world exports of those commodities fell sharply.

Wage-price inflation at home must be avoided at all costs. Such inflation would create serious trouble for our manufacturers in competing against foreign producers both at home and abroad.

The beneficial effect of imports on our economy is often overlooked. Many of our important industries are dependent upon imports for raw materials. We must, for instance, import ninety percent of our manganese or chrome ore -- essential products in steel production.

One has only to look at the new market in compact cars to appreciate how much scope there is for a constructive response to import competition. Furthermore, recent factory shipments of U.S.-made small transistor radios have doubled, as we began to take advantage of a domestic market created by Japanese imports. At first the imports far outnumbered domestic production, but our own manufacturers quickly improved production methods and increased production when they saw the market potential. The resulting drop in unit cost, thanks to increased efficiency, made the difference, despite the lower wages in Japan.

The trade program offers a challenge -- not a threat. This is particularly true in the matter of jobs. One out of every eight farm workers produces for export, and nearly eight percent of the employment in manufacturing is attributable to exports. In all, more than three million workers owe their jobs -- directly or indirectly -- to exports, many more than the small fraction of all workers who might be adversely affected by a rise in imports. Failure to enact the trade program would seriously affect these export workers, by making it more difficult to sell goods in Europe.

The President's Trade Program is not an isolated, one-shot proposal, but a strong commitment to a new era in economic cooperation among all free nations. It has political, as well as economic implications, for trade is a means to stay in touch with other nations on a basis of mutual interest arising from mutual advantage. The trade program is not merely a device to deal with the Common Market, but an avenue of cooperation for all free nations. Trade with the Common Market will stimulate both our own growth and that of our allies in Western Europe -- thereby expanding their capacity to assume an increasing share of the common defense of freedom. If freedom is to survive, the free nations must be united as closely as possible in pursuit of our common purpose.

The President's Trade Program is a major means of achieving ever closer cooperation and economic strength. Without it, our immediate outlook is uncertain. With it, we are a step closer to our goal of a free world of thriving, prosperous and strong nations. Let us reject economic insularity as we rejected political insularity. Let us decide now, while there is time, that we will not let this opportunity pass. Let us seize it boldly, in the best tradition of a people who welcome change and challenge and who willingly face up to competition.

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