

Address by Hon. Hale Boggs, Chairman,
Subcommittee on Foreign Economic Policy,
Joint Economic Committee

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WHERE IS UNITED STATES FOREIGN ECONOMIC POLICY GOING IN THE 1970's?

The subject I am to talk about today is broad and complicated and certainly not one that anyone can do justice to in thirty minutes. Nor can I pretend to deal with it adequately today even if more time were available and your patience unlimited.

What I would like to do then is to make some general comments and observations about the future of foreign economic policy and then discuss two specific policy issues that will come under discussion in the coming months.

The subject is one which, as you may know, has engaged my interest for some time. From 1956 to 1960 I was Chairman of the Subcommittee on Foreign Trade Policy of the Committee on Ways and Means which, I think it is fair to say, did some probing and pioneering work on the subject of foreign trade policy. In 1961, I became Chairman of the Subcommittee on Foreign Economic Policy of the Joint Economic Committee. In that year, this Subcommittee undertook a series of studies and hearings on the future of the United States foreign trade policy which helped prepare the ground for the Trade Expansion Act of 1962 and the Kennedy Round of Trade Negotiations which followed.

My Subcommittee is now engaged in a year-long study of the whole spectrum of issues that go to make up our international economic policy. We opened with an introductory set of hearings in December in which various aspects of foreign economic policy were explored by 15 experts representing diverse interests and perspectives, including six who came from abroad.

We have a rather ambitious program of work for the balance of the year. On March 16 we will open four days of hearings in which we will discuss trade policy towards developed countries including such subjects as the evolution of the European Common Market and its implications for the United States, the agenda for future trade negotiations and the roll of agriculture in world trade. In May, we plan to hold several days of

hearings on policy towards less developed countries. At that time we expect that the report of the Presidential Commission on this subject, under the Chairmanship of Rudolph Peterson of the Bank of America, will have been made public, and that we can contribute to a review of that report and of the issues involved in this important subject. In July, we are tentatively planning to hold hearings on United States foreign investment, its relationship to international trade and the role of the multi-national corporation. Other subjects will be covered in subsequent hearings including the very timely question of the international adjustment process; that is to say, how deficits and surpluses in the balance of payments of various countries can be adjusted with a minimum of disturbance to the normal processes of international trade, finance and investment.

On the whole, the record of performance in the field of international economic policy, both on our part as well as on that of the other free world nations, is one which can give us some satisfaction. This is certainly true when you compare what has happened in the post-war period with the dreadful experience which the world went through in the 1930's. The post-war period has seen remarkable progress. We have all learned a lot from the lessons of the 1930's. Also, the advanced countries of the world have managed their internal economies with a great deal more skill and good sense than ever before. Beyond that, we have developed international institutions and rules as well as techniques of cooperation and coordination among countries which have been invaluable.

In the field of foreign trade, for example, we have made remarkable progress in the removal of restrictions on world trade and in the establishment of rules for the conduct of world trade under the aegis of the General Agreement on Tariffs and Trade (GATT). The recently concluded Kennedy Round of Trade Negotiations, which was conducted under GATT, represented the greatest step in trade liberalization ever. Similarly, in the field of international exchange and payments, remarkable progress has been made with the March 1968 decision on gold, and more recently, the agreement on SDR's -- the Special Drawing Rights under the International Monetary Fund. We have, I think, in this field been able to bring a degree of rationality and sensible management to international financial arrangements that we can all take satisfaction in. I sometimes wonder

whether we have made such good progress precisely because this subject is so arcane and complicated that most politicians had no option but to leave the matter in the hands of experts.

But as much progress as we record, there still remain many issues to be dealt with. We live in a dynamic world; everything changes and new policies and actions have to be continually taken. We can't say, "Stop the World, I want to get Off!" In fact, we have to continually press forward in order to secure the progress that has been achieved and to make further progress. This is what I call the bicycle principle of political kinetics: If you don't move forward at an adequate rate of speed, you fall down on your tail.

The subject of foreign economic policy is not the highest priority on the country's agenda. I don't have to tell you what the pressing issues are; but, I would only observe that we cannot afford to neglect this subject except at our peril. If we do, we will risk losing the considerable investment of twenty-five years of great effort and progress in building a more viable economic system. The interesting thing about foreign economic policy, unlike some of the other public policy issues that stand higher in our priorities, is that we are not talking about funding large programs which involve considerable budgetary and resource cost to the economy. On the contrary, when we talk about foreign economic policy we are really talking about operating in the world economy so that we can increase the benefits that we enjoy. Our objective is greater real income brought about through a better use of resources on a world-wide scale. And we want improved international relations -- and this is an important objective of foreign economic policy -- because we want increasingly to improve the prospects for international order, stability and peace.

Despite our accomplishments, there are many things that remain to be done and many threats that have to be averted. In the field of foreign trade, we have to learn how to deal with the problem of world agriculture which has become a separate and unique issue both in domestic as well as international policy forums. Similarly, we have to address ourselves to the whole range of non-tariff barriers to trade which have assumed more importance as tariffs have progressively been reduced. In both instances, that is both agriculture and non-tariff barriers, we are going to have to

devise new methods of negotiation which will inevitably have to deal to some extent with the domestic policies that give rise to the import restrictions under negotiation. Similarly, the subject of international investment has come to enjoy a great deal of attention and is one of the more delicate issues that has arisen in this respect is the potential conflict of national jurisdictions. In addition, the great growth of the investment accounts in the balance of payments has resulted in the movement of large masses of capital that can sometimes be highly volatile and we will have to learn to live with these. As to policy toward the less developed countries, the most recent foreign aid appropriations bill spells out more clearly than anything else the need to take a whole new look at our policy in this vital area. In the field of monetary policy, among the issues that have to be discussed will be the question of how national balances of payments can be adjusted without doing violence to the business of trade and investment. There is a great deal of interest in greater flexibility in foreign exchange rates and, related to that, is the subject of greater coordination of national policies to minimize maladjustments in balances of payments.

This is just a partial listing and it would be premature for me to discuss these matters in any detail because we have just begun our studies. I will be better able to discuss these and other issues and have concrete recommendations after we have finished our work. And, indeed, we plan to issue a detailed report with recommendations.

I want to make some observations today on the two issues that are enjoying little attention currently, but that are likely to engage considerable interest in the months and perhaps years ahead. Neither of these two questions has had much discussion either publicly or in the Congress, even though one of them would require legislation.

The two issues that I have in mind are:

First, the question of providing tariff preferences for less developed countries as a means of promoting their exports to the developed countries and increasing their foreign exchange earnings. The second is the issue of the evolution of the European Economic Community (the European Common Market) and its enlargement through negotiations with the United

Kingdom and other countries. It seems to me that both these questions deserve more attention and, particularly, more critical evaluation than they have enjoyed until now.

Tariff Preferences for LDC's

A policy of tariff preferences means applying lower tariffs or no tariffs at all on imports from LDC's, even while the same imports from developed countries are subject to import duties. The purpose is to promote exports from LDC's, increase their foreign exchange earnings, and stimulate their industrial development.

Some background on this subject is in order. The European Economic Community (EEC) has for a number of years, been giving tariff preferences to a number of African states and has been receiving tariff preferences in return from these countries. Commonwealth countries also maintain preference arrangements amongst themselves. The United States has been critical of these arrangements and has sought to diminish their effect.

The idea that the LDCs should be accorded tariff preferences by all developed countries -- an idea which the Latin American countries have been pushing because they were excluded from both the EEC and the Commonwealth arrangements -- gained status at the United Nations Conference on Trade and Development which began in March, 1964. The preference idea was only one of many proposals designed to assist the trade and development of LDCs, and it was one which the developed countries, as it turned out, focused their attention on perhaps because the other ideas seemed to be even more difficult to achieve. The United States, making what it believed to be virtue out of necessity, finally came around to a reluctant support of the preference idea; the U.S. came to see it as an opportunity to try and break down the discriminatory preference schemes of the EEC and of the Commonwealth. Without going into the further history of this idea, it is sufficient to point out that a series of proposals advanced by the developed countries are now under consideration by them in the OECD (the Organization for Economic Cooperation and Development) which is providing the forum in which the developed countries hope to arrive at a uniform policy on tariff preferences for LDC's.

The United States proposal, for example, which was submitted on November 3, 1969, provided the following:

- 1) Complete elimination of all tariffs on imports from LDC's except for those on textiles, shoes and petroleum. Agricultural products would be treated selectively.
- 2) The duty-free treatment would last for ten years.
- 3) The scheme would be applied by all developed countries to all LDC's without discrimination.
- 4) Any LDC's that get or give special preferences would be excluded from the scheme.

As might be expected, the proposals of other countries submitted at the OECD differ significantly from that of the United States in that they are more restrictive and more conditional in nature, with a number of them, for example, proposing quota limitations on the amount of imports from LDC's that would enjoy tariff preferences. It is going to be very difficult indeed to negotiate out these differences and to reconcile them and one might realistically expect that the end process of such a negotiation will produce a proposal which reflects the lowest common denominator.

The question I would like to ask is whether this whole approach makes any sense. I have serious doubts. It appears to me that we may well end up with little of real substantive value to the LDC's and with inevitable disappointment on their part, accompanied by bad consequences for the world trading system resulting from the introduction of further discriminatory arrangements. The latter would result if the U.S. were to give special preferential treatment to Latin America only, as the President indicated on November 11, in the event we have had no success in getting agreement in OECD on a universal, non-discriminatory, tariff preference arrangement. The pity of it all is that we made our OECD proposal as a tactical move to try and break up the EEC preferential system which is discriminatory. But we could end up increasing the extent of discrimination instead by providing Latin American with special preferences. This would be politically as well as economically unfortunate. ✓

Without going into any elaborate discussion, let me make four points that are relevant to an appreciation of the tariff preference issue -- a subject that will be enjoying increasing attention over the months ahead:

1) Most economists who have studied the subject have come to the conclusion that a tariff preference scheme would bring little benefit to the LDC's as a whole. Only the very few LDC's that already have manufacturing capability would be able to take advantage of the scheme to increase their foreign exchange earnings, but even these are most proficient in the manufacture of such products as textiles, shoes and processed agricultural products, which, at the very minimum, will be excluded from the scheme. It should be remembered that eighty to ninety percent of the exports of the LDC's are in bulk, unprocessed commodities, that face zero or very low tariffs already. Furthermore, a tariff preference scheme that lasts ten years is not likely to provide a sufficient incentive for foreign investors to develop manufacturing capability in the LDC's designed to produce goods for export.

2) Preferences, and in particular discriminatory ones, involve complex problems of administration. When such preferences are given by developed countries as a unilateral act of charity, they invite what can euphemistically be called "flexible" administration by the developed countries which can generate a good deal of friction. We may not be doing either the LDC's or ourselves a favor.

3) There is a danger that if we do provide preferences, we may conclude that we have discharged our responsibilities to the LDC's and that we can cut foreign assistance and other programs. The net result would be that the few, relatively developed, LDC's which would gain benefits from a preference scheme would do so at the expense of the least-developed LDC's which are most in need of help.

4) Any preference scheme will require implementing legislation. I suspect that it would have hard sledding in the Congress for a variety of reasons, not the least of which being that, as I have tried to suggest, the proposal is not well thought out.

The preference idea is one of those political initiatives that seems to have come into being not because it is inherently sensible and constructive, ✓ but rather because the developed countries, faced with the pressures generated by the UN Conference on Trade and Development (UNCTAD), felt that they had to do something.

Actually, the United States proposal submitted in OECD, which I outlined earlier, would, if accepted, be an improvement over the existing

arrangements of the EEC and the Commonwealth, particularly if it were just an interim phase followed by generalized tariff reductions. But the prospects of the United States proposal being accepted are virtually nil. Furthermore, if we revert to a discriminatory preferential arrangement with Latin America, we would be compounding the felony.

The lesson I take from all of this is that what is needed in our policy toward LDC's are not contrivances, but well thought-out and meaningful programs and proposals -- including policies that offer a real promise of increasing the export earnings of the LDC's on a durable and permanent basis. I trust that such a serious policy review has been going on in the Peterson Commission, and I hope that our Subcommittee can make its own contribution as well.

The United States and the European Economic Community

The agenda for trade negotiations was not completed for all time with the close of the Kennedy Round. There is much yet to be done that can only be accomplished through multilateral negotiations under the GATT and I have in mind here negotiations that would produce lasting and genuine benefits for the trade of LDC's as well. But in order to negotiate, one has to have negotiating partners. Here the question is what the disposition of the EEC will be. The EEC is now, and may very well be for many years to come, occupied with the question of whether it should become enlarged by membership of the U.K., Denmark and Ireland and where and how it should develop relations with the European neutrals such as Sweden, Switzerland and Austria.

There is, to put it briefly, the danger that Europe will be so involved over the next few years in working out its own internal trade and economic relationships that it will completely neglect its relationships with the outside world. This I think would be very dangerous and to my mind, unnecessary.

Yet it is a prospect that is realistic enough so that we should be facing up to it. What concerns me here is the following possibility: It has now been agreed that the EEC will begin negotiations with the U.K. in July. Considering the complicated nature of these negotiations, most observers think that they would require a minimum of two to three years and

a maximum of four to five years to complete. At the same time, negotiations will be going forward with other European countries interested in joining the Common Market. Still other negotiations may be going forward with other European countries not able to join the Common Market, but interested in developing some sort of tariff and trade arrangement with it. Because of the complex character of the problems involved, the negotiations are likely to be complex, and what results the product of considerable compromise. The field of agriculture is only one, but a very important, example of an area where bargaining will be intense and difficult. The results of these negotiations will be of great interest and consequence for the United States as well as for the rest of the Free World. There is a danger that we will be faced with a fait accompli which we will not be able to influence and which will be very difficult to change through multilateral negotiations, after the process of internal European negotiations have been completed. This could breed frustration and retaliation, which should clearly be avoided.

I, therefore, would enter a plea that the United States, as well as other interested countries, because they have direct interest in the outcome of these negotiations between the EEC and others, ought to have a look in on the negotiations while they proceed, and be able to influence the course of these negotiations in the interests of the world trading community.

There are large issues that hang on the outcome of the European negotiations. They will have a profound influence on the kind of trading world we will have in the 1970's and beyond. Will it be the open, nondiscriminatory world that we have taken such pains to construct since the initiation of the trade agreements program, or will it be a trading world marked by regionalism, discrimination and preferential arrangements? We have to know, it seems to me, fairly soon whether the EEC and the other European countries involved intend to channel their energies and interests into their own negotiations or whether they are prepared to undertake multi-lateral negotiations on a world-wide basis.

This is not a question of whether one is hostile or favorable to the process of the European political integration. The United States has traditionally supported the integration of Europe as a noble and inspiring idea. Which way Europe proceeds on this course is a decision for the European countries to take. Of course, we have an interest as do other

countries in where Europe will be going and what policies it will pursue. But the point I want to emphasize here is that, as far as trade policy is concerned -- and that is what is at issue here -- tariff discrimination and protectionism are not necessary to protect the sovereignty of Europe and to generate political integration in Europe. If tariff and trade discrimination were the mortar of political unity in Europe, then it is a very fragile edifice indeed.

In his message to the Congress introducing the Trade Expansion Act of 1962, President Kennedy observed that "The two great Atlantic markets will either grow together or they will grow apart." ^{To avoid this,} /we have to begin to think now about the next new initiative in trade policy. Concentrating on its own concerns, Europe may not be in a position to offer such an initiative at this time. The task, as it has in the past, falls on the shoulders of the United States.

The United States Government and the United States economy are strong and powerful influences in the world. We have no option but to continue to exercise our power and influence. We can best do this if we develop policies that are responsible and intelligent.

I am concerned about the neo-isolationism that is dotting the American landscape, for those voices offer the council of passivity and withdrawal that are unbecoming and indeed dangerous to a great country.

There are too many people who have read the wrong lesson from the Vietnam war and who have concluded that the use of American power and influence is inherently immoral. On the contrary, the intelligent use of American power is, I believe, essential for stability and progress in this world.

I have been talking about only one, and perhaps a small, aspect of America's role in the world, but what we do in our international economic relations will have a bearing on the totality of our policies in the 1970's.

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