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HEARINGS

BEFORE THE

SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY

OF THE

COMMITTEE ON FOREIGN AFFAIRS
HOUSE OF REPRESENTATIVES

NINETY-SECOND CONGRESS

SECOND SESSION

ON

House Concurrent Resolutions 546, 547, 548, and 549

APRIL 24, 25, 26; MAY 9, 10, 11, AND 17, 1972

Printed for the use of the Committee on Foreign Affairs

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TRADE ADJUSTMENT ASSISTANCE

MONDAY, APRIL 24, 1972

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY,
Washington, D.C.

The subcommittee met at 10:37 a.m. in room 2172, Rayburn House Office Building, Hon. John C. Culver (chairman of the subcommittee) presiding.

Mr. CULVER. The subcommittee will now come to order. We begin today our inquiry into the concept and workings of trade adjustment assistance. These will be educational hearings designed to lay a foundation for better congressional understanding of the problems and opportunities in this field as they relate both to our domestic economic posture and—of particular concern to this subcommittee—to our overall foreign economic policy.

Because of the breadth and importance of the issues involved in this inquiry, we plan to communicate our findings to the committees having legislative jurisdiction and to the Congress as a whole.

These hearings grow naturally out of our investigations of last year which focused on trade and economic frictions with our major trading partners.

On March 1 of this year, I introduced a concurrent resolution, with 80 cosponsors, stressing the importance of workable programs of adjustment assistance as a possible means of relieving stresses on our foreign economic policy. This resolution was referred to our subcommittee and provides the formal basis for our proceedings.

I would like to stress at the outset that we are not primarily concerned with past failings in our present programs of adjustment assistance, except as they illustrate the direction of needed reforms. Nor are we at all interested in assigning blame to any agencies or individuals in this or preceding administrations.

The fact is that reform proposals have been made in both the Johnson and the Nixon administrations, with the most recent comprehensive recommendations emerging from the report of the Williams Commission on International Trade and Investment Policy in the summer of 1971. We hope to build on the record of these previous studies.

To put this matter in perspective, I might quote from a statement of former Deputy Secretary of Defense Kenneth Rush, who stated just before his retirement as Ambassador to Germany, and I quote:

> Progress on trade liberalization in both the industrial and agricultural sectors will be impeded unless all major traders use more specific and flexible measures to adjust domestic producers to the disruption that may occur from sudden increases in particular imports. The aim of efficient adjustment measures should

be to provide income support and relocation assistance directly to the affected producers and workers, instead of transferring the burden to the whole society and the international community through price and tariff increases.

There are some rather fundamental questions that we will be exploring. Among these are the following:

1. When and on what terms can adjustment assistance operate as a substitute for trade wars and restrictions with competitor nations?

2. How do our programs compare with those in effect in other advanced economics, and should we seek to internationalize the adjustment process in some way, perhaps by moving toward agreements on desirable minimum goals?

3. Is there adequate opportunity in our own economy today for relocation of import-sensitive labor and capital into more productive endeavors?

4. Can adjustment assistance be made to operate effectively in relation to trade-related injury alone, or must such a program be designed as part of an overall domestic conversion policy that remedies industrial dislocations regardless of cause?

5. What is the proper relationship between adjustment assistance for industrial firms, workers, and communities on the one hand, and temporary import relief for entire industries on the other?

We will also be looking at such important procedural questions as eligibility criteria for adjustment assistance, the administrative structure or structures for decisionmaking, and "early warning" mechanisms to speed the delivery of relief, together with the quality and level of available benefits.

On all such matters, and on others, we hope to receive cogent and constructive commentary.

In this first week of hearings, we will be receiving testimony from knowledgeable private witnesses. These witnesses, together with others who will be appearing later or submitting papers to the subcommittee, are drawn from universities and public-interest groups, from labor, and from business.

Next week, we will be hearing from administration witnesses, who we hope will be sharing with us their current thinking on the various, complex, and important issues we have identified.

I would like to welcome Mrs. Norman Hinerfeld this morning as our initial witness before the subcommittee. As our first witness, and as a representative of a consumer-oriented organization which has long been concerned with the development of a constructive foreign economic policy, and particularly as an organization which has closely examined the development of adjustment assistance since its inception in the Trade Expansion Act of 1962, the League of Women Voters is well suited, in my judgment, to both participate in these hearings and to make available to the members of the subcommittee their enlightened consideration on this critical subject.

Mrs. Hinerfeld.

STATEMENT OF MRS. NORMAN HINERFELD, LEAGUE OF WOMEN VOTERS OF THE UNITED STATES

Mrs. Hinerfeld. Thank you very much.

I am Mrs. Norman Hinerfeld of Larchmont, N.Y. I represent the League of Women Voters of the United States, a volunteer citizens'

organization of 1,350 leagues with approximately 160,000 members in the 50 States, the District of Columbia, Puerto Rico, and the Virgin Islands.

We are pleased to have this opportunity to testify, because we consider effective trade adjustment assistance programs essential to the liberal trade policies we support.

The league's advocacy of liberal U.S. trade policies is long standing and well known. Over the past 40 years, league members have helped to formulate the position the league now holds. We are convinced that the expansion of international trade can serve as a principal means to economic well-being at home and abroad, and to improve political relations among nations.

For these reasons, and because we believe that national trade policy should serve the general interest rather than special interests, we oppose restrictive barriers that tend to increase domestic inflationary pressures, reduce the beneficial stimulation to American industry of international competition, and exacerbate international political tensions.

We support systematic reduction of trade barriers, broad Presidential negotiating authority, multilateral negotiations of trade agreements, the most-favored-nation principle, reciprocity except when political and economic considerations call for special trade concessions to developing countries, East-West trade policies which will relax restrictions and permit flexibility and selectivity, and adjustment assistance.

Alone among the components of the liberal trade policy endorsed by the league, adjustment assistance is designed to keep the full burden of economic dislocation from falling on the workers and firms directly affected by import competition.

I wish to confine my comments today to trade adjustment programs as they affect workers, because the league believes that assistance programs designed to help import-injured workers and firms should be considered separately, on their own merits, in relation to their special problems and goals.

Despite the appearance of symmetry created by the adjustment assistance provisions of the Trade Expansion Act, the same criteria for eligibility and effective allocation of resources do not necessarily apply with equal validity to workers and firms alike.

By itself, trade adjustment assistance cannot work employment miracles. This is true particularly when unemployment continues to hover at about 6 percent. Recognizing the inherent limitations of adjustment assistance, however, it is clear today—and has been clear for several years—that the program established a decade ago by the Trade Expansion Act is inadequate.

In 1969 and again in 1970, the league testified in favor of liberalizing the adjustment assistance program. We are convinced that access to assistance must be made easier, that there should be greater emphasis on retraining and reemployment—which is, after all, the ultimate purpose of the program—and that level of benefits should be substantially increased.

I would like to expand now on these three views.

1. ELIGIBILITY

It was once remarked of a librarian in a prominent institution that she regarded the perfect library as one in which every book remained in its proper place on the appointed shelf.

The adjustment assistance program, as it was written into the Trade Expansion Act and administered at least until 1969, reflected much the same spirit. There could be no abuse of the program so long as it remained wholly inoperative. But like a library where the books never leave the shelves, it was also self-defeating.

The first stumbling block to a workable program has been the so-called double major factor.

The league shares the widespread opinion that less stringent criteria for an injury finding must be established. This would mean, first, elimination of the requirement that increased imports must be shown to have resulted from a prior trade concession; and second, relaxation of the requirement that imports must be shown to be the major factor in injury.

The second stumbling block has been the long investigatory process.

Workers seeking assistance face a minimum of 80 days, and the possibility of 11 months, of investigations before certification for eligibility for relief is finally issued.

Given the fact that most petitions are filed after unemployment has already begun, issuance of certification is likely to take place long after the established date of injury. The average time lapse exceeds a year. This results to a significant degree in retroactive payment of trade readjustment allowances. The delay thus reduces the effectiveness of the program by emphasizing payment of benefits rather than retraining, and by increasing the cost.

2. PROGRAM EMPHASIS

The purpose of trade adjustment should not be merely to offer cash compensation to workers for whom unemployment is a more significant consequence of import competition than lower prices for certain consumer products. It should be to insure that the jobs they lose are not the only jobs they are likely ever to have.

Realistically, reemployment depends on three factors: Retraining and relocation, when these are necessary, and the job opportunities that only a healthy economy can offer. This is the dilemma of trade adjustment assistance. We know that it both contributes to and benefits from the strength of our national economy.

But we know, too, that by itself it cannot transform a stagnant economy into a vigorous one. Any trade adjustment assistance program, no matter how ingeniously devised or generously endowed, ultimately will depend for its success on prevailing economic conditions.

A worker will react cynically to a trade policy that threatens to cost him his job, require training in new skills, and adjustment to a new environment, and consign him in the end to unemployment insurance benefits.

Even so, however, present retraining and relocation programs have not produced the desired effect. This is dramatically reflected in our experience with relocation.

As you know, the programs remained inoperative until 1969 because the Tariff Commission found no injury in each of six worker petitions.

From November 1969 to February 1971, a total of 29 groups, representing 11,000 workers, received certification for adjustment assistance, and about 3,000 persons are estimated to have received financial assistance.

As of March 31, 1972, approximately 23,000 have been certified, and 16,000 have actually received assistance; but the instances of relocation, while not exactly known, are estimated to be fewer than 10.

For many persons, relocation is a major economic and social undertaking. Incentive to relocate could be encouraged by making relocation less difficult—and less expensive: By increasing allowances, which are now restricted to heads of households, to meet family needs; by providing some form of help with housing; by offering the opportunity for the advance exploratory trip that most firms offer their executives, and executives take for granted.

3. LEVEL OF BENEFITS

Ten years ago, the Trade Expansion Act set the level of benefits at 65 percent of a worker's weekly wage or of the average weekly manufacturing wage, whichever is lower. The maximum trade readjustment allowance payable today is therefore $93.

The league believes that an increase in the level of payments is overdue. Even 2 years ago, the Ways and Means Committee recommended that the 65 percent be raised to 75 percent.

While the level of trade readjustment allowances has remained unchanged for a decade, State unemployment insurance benefits have improved substantially. In fact, in four States and the District of Columbia—all of which, unlike the trade readjustment allowance, offer dependents' allowances in their State unemployment benefits—a worker can collect more under the unemployment insurance system than he can from his trade allowance. In another State, he can collect as much. And another offers only a dollar less.

These aspects of trade adjustment assistance—eligibility criteria, retraining and reemployment, level of benefits—are the ones most urgently requiring revision if the program is to work at all. They are all related to the program as it was originally conceived and written into law.

We are concerned, however, that a truly successful program may require more than improvement of existing statutory provisions: That it may require fundamental revision or expansion.

Specifically, we urge congressional examination of several vital issues.

First, should early retirement option for older workers be made available when the cost and difficulty of retraining are relatively great and the prospects for productive reemployment limited?

Second, should the scale of trade readjustment allowances reflect more than wages lost? Should it also take into account the loss of pension rights, medical protection, seniority, and related factors of employment?

Third, should worker adjustment programs be supplemented by programs designed to aid communities whose economic resources are seriously depleted by the loss of import-injured firms?

Fourth, is it possible to devise an early warning system that would set adjustment programs in motion when injury is threatened, instead of long after it has occurred?

And fifth, would trade adjustment assistance prove more successful if it were incorporated into a broader adjustment-conversion program for workers affected by Federal policy decisions in a number of fields, notably defense spending and environmental standards?

The league is committed to a liberal trade policy because we believe, on the basis of past experience, that such a policy will not only please our trading partners and our consumers, but will contribute to the growth of a healthy U.S. economy.

We share the sense of the Congress that "domestic policies which promote the economic strength of the United States are a necessary prerequisite to the effective implementation of a consistent and constructive foreign policy" in the years ahead, and we join in urging adoption of the "workable, responsible and efficient measures" that will enable the U.S. Government to achieve a foreign policy designed to "promote the national interest and the achievement of balanced and stable world relationships."

World trade must be an integral part of such a foreign policy. Adjustment assistance is not the only key to U.S. successful participation in world trade, but it is one of them.

We give our full support to worker adjustment assistance programs revised and broadened in the ways I have described here today.

PROSPECTIVE BUDGET COSTS

Mr. CULVER. Thank you very much.

Mrs. Hinerfeld, has the league made—or do you know of any impartial body, Mrs. Hinerfeld, that has made—a study of the prospective budgetary costs of a liberalized adjustment assistance program along the lines that you have outlined in your statement?

Mrs. HINERFELD. No. As our members have not investigated this issue, our own information, of course, comes from the figures that were projected, I believe, in the 1969 bill which anticipated liberalization of the trade adjustment program, in which it was contemplated that it would cost something like $50 million a year for an expanded worker-adjustment program, maximum.

FOREIGN ADJUSTMENT ASSISTANCE PROGRAMS

Mr. CULVER. As a result of the research and study trips abroad that I understand various representatives of the league have conducted, has the league formed any opinions regarding the adaptability or the suitability of foreign adjustment assistance experiences to the social and economic circumstances that exist in the United States?

Mrs. HINERFELD. Yes. You are referring, of course, to the trip that nine of us made earlier this year, in February to Japan, primarily to study the economic system and United States-Japanese trade relations.

We came away from that experience with mixed feelings. We believe

that there are many aspects of their program which would certainly be beneficial for the United States to learn from.

Their adjustment assistance is comprised essentially of assistance to firms. Their adjustment assistance program is relatively new, by virtue of the fact that they have built into their cultural and economic system provisions for employee security, for cooperation between business and industry which, in effect, are counterparts of what must be done by conscious Federal policy in assistance here.

However, their recent experience, primarily in the textile sector of the economy, has proven them vulnerable to import competition; and also, of course, because of the quota that the United States agreed on with them last October, on their reduction of exports. These two factors have involved tremendous cutbacks and contraction of the industry.

Long before the October 15 official Textile Agreement between the two countries, at the time when they were talking about voluntary cutbacks, the Government started providing adjustment assistance to the Japanese firms. They have allocated something like $700 million for this purpose, essentially related to firms, the principal amount of which would go in two areas: the purchase of obsolete equipment, and loans for firms to allow them to convert to other activities.

The issue of worker adjustment assistance really has not arisen in Japan, first because of the fact that their economy is, as you know, an expanding economy in comparison with ours. They have an unemployment rate of something like 1.2 percent; so they are not concerned with large numbers of unemployed.

Second, because built into the economic and industrial structure is a system whereby social benefits are provided primarily by business and industry, and most companies provide their employees with a system of lifetime employment. Therefore, should there be any structural dislocations due to competition and so forth, alternate work is provided, or their employees are sent home and paid, or they are loaned to other companies with which they do business, and so forth.

Mr. CULVER. Mrs. Hinerfeld, I know that the committee would appreciate it if you would supply us with any reports that you made during your trip. I know it would be extremely helpful to us in these hearings.

Mrs. HINERFELD. Yes; we will be happy to provide it.[1]

THE ROLE OF THE CONSUMER

Mr. CULVER. Does the League of Women Voters' proposal relate to a consumer agency, and would such an agency have a proper role, in your judgment, in the governmental process, for example, in the choice of remedies that may be available for problems posed by import dislocations?

Mrs. HINERFELD. I am afraid I cannot comment on the aspect of the establishment of a separate agency.

Our concern with the consumer at this stage of our history is really related to our trade position. Earlier in our history, we were, of course, concerned directly with consumer issues.

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[1] See League of Women Voters of the United States, "Report on the Japan Trip" on p. 410 of the appendix.

Therefore, I am not in a position to answer that.

Mr. CULVER. Just one last question, Mrs. Hinerfeld.

What thoughts do you have with regard to your experience in the League and your concern with this general subject as to how political activity could be more effectively marshaled and mobilized in the context of international public opinion, and for our own purposes, primarily in the domestic political context in our own country so as to have a more articulate definition of the consumer interest in terms of the pressures that are brought to bear within the Congress on this subject?

It seems to me that we in Congress understandably hear from the industries that experience problems as a result of import penetration, and they, of course, represent disciplined groups in terms of their financial interest, their membership, and in the membership of the voting block involved.

What thoughts do you have for us with regard to both the potential and the practical means of bringing about a more effective expression of the general consumer interest in matters of liberal trade policies?

Mrs. HINERFELD. Congressman Culver, right off the top of my head, I can only say we have to continue doing what we have done in the past, which is trying to reach as many people as we can with facts that relate to the importance of liberal trade policies for the consumer, for the economy as a whole, for our relations with other countries.

However, I think that in view of the fact that there have been changes in international economic relations and trade relations within the past 10 years, since 1962, in the Trade Expansion Act, we have a slightly tougher role, and a new factor has entered into the situation.

I think we have problems. As has so often been pointed out, these problems involve real people and real jobs. I think we have the factor of credibility to contend with, and I think that this is one reason why the work of your committee, at the present time, is so important.

Adjustment assistance has not done what it was designed to do. If it could do what it was designed to do, this would be one factor, I think, in enhancing the credibility of alternatives to protectionist legislation. I think that a far bigger role has to be taken by Government.

I think adjustment assistance is helpful for specific firms and for specific groups of workers, as we had in the former employment times of 1962. I think that now we have to go beyond this to approach the whole range of measures that will allow us to contend with sectoral and whole industrial dislocations, and I think that by coming up with some positive answers in these areas, that appear credible to the people we are trying ot reach, which is, you know, everybody, that these are the most effective political things we can do.

I have an experience I would like to relate that occurred to me when I was here in this building in 1970, and seeing a Congressman about the 1970 protective trade bill.

I went into one Congressman's office, and there were a group of people who were there to see the Congressman on another issue relating to equal opportunities in jobs, and they said to me, "Why are you here?"

I told them, and they took one look at me—here I was opposing this protectionist trade bill, and they said, "That protectionist trade bill is to protect our jobs, it is to help us."

I thought, until we can come up with positive answers to these people, there is nothing, all our other efforts in espousing liberal trade policies will go for naught, and that is my view.

Mr. CULVER. Thank you, Mrs. Hinerfeld.

Congressman Whalen.

ELIGIBILITY CRITERIA

Mr. WHALEN. Thank you, Mr. Chairman.

Mrs. Hinerfeld, I would like to talk with you specifically about the first part of your presentation; namely, eligibility.

I was not a Member of Congress when the Congress passed this Trade Expansion Act. However, as you imply, the assistance is limited only to those instances where damages occurred from the resulting trade agreement. You have suggested that we undo that by expanding the act. However, you have not come up with any specific suggestions.

I would like to know just what positive criteria for eligibility would you suggest?

Mrs. HINERFELD. Well, you are absolutely right. Our comments and criteria were restricted to the negative, to the abolition of the double negative and linking of concessions, and requiring only injury in some substantial degree.

We are not really prepared to make specific recommendations on eligibility at this point, because the remarks that I have made in my official presentation are the remarks which reflect the degree of study and consensus of our members. Our members, in order to be able to support or oppose any legislation, did not tie themselves down to any specifics in this area, nor devote specific attention to them.

I think that certainly in the Williams Commission report and several of the other studies there are some very good guides which I personally could agree with.

THE EFFECT OF MULTINATIONAL CORPORATIONS

Mr. WHALEN. I understand that you are tied by an organizational position.

Of course, in considering this, we often restrict ourselves to a limited view of problems arising from imports.

Quite obviously, this is one area that we can consider.

In addition I believe that in the years since the Trade Expansion Act was adopted, we have been confronted with another issue, that is, the possible loss of jobs due to the establishment of American subsidiaries abroad, or the involvement of American firms in multinational corporations.

It would seem to me that in any consideration of trade adjustment we would have to include this.

Does the league have any position in this area?

Mrs. HINERFELD. Unfortunately, Congressman Whalen, the league studied this issue prior to the fairly recent growth of and concerted attention being paid to the issue of the multinational corporation.

While not addressing myself specifically to the issue of how the multinational corporation affects jobs, because honestly I don't know,

and there are so many conflicting studies with different statistics on the matter, I think that certainly the loss of export opportunities would be another equivalent to import injury.

LEVEL OF BENEFITS

Mr. WHALEN. Mrs. Hinerfeld, I say I recognize the inhibitions under which you are operating. Do you have any thoughts, or has the league given any study to the nature of the assistance in terms of how long it should be in operation?

In other words, assuming we have eligibility criteria established, how long would you suggest that this assistance remain in force for a displaced worker?

Mrs. HINERFELD. I am afraid again I cannot go beyond my position statement.

Mr. WHALEN. Just expressing a personal concern, quite obviously this could become perhaps a permanent program, as so many Federal programs are, and perhaps defeat the whole purpose of it.

Thank you, Mr. Chairman.

Mr. CULVER. Congressman Steele.

SHOULD THERE BE AN OVERALL CONVERSION PROGRAM?

Mr. STEELE. Thank you, Mr. Chairman.

Mrs. Hinerfeld, in your very thoughtful statement, you point out what you believe is the necessity of considering the problem of adjustment programs for individual workers and for communities separately from adjustment programs for firms and whole industries.

I would be very interested in precisely what your reasoning is, here. I think that many people who address themselves to this subject feel there should be an overall conversion policy, one that addresses the entire problem.

You pointed out that in Japan, and for very good reasons, one of them being the labor situation, as well as the social and employment patterns that have developed there, the assistance is to firms and industries per se.

How can we really separate aid to workers and communities and aid to firms and industries profitably?

Mrs. HINERFELD. Your point is very well taken.

I think that for the purposes of this statement, we separated workers from firms, not within the broad operational context, but only in that having stated that it is necessary to relax eligibility criteria, we are not prepared to define exactly how they should be relaxed for firms.

We do have some feeling, however, that the criteria should be different between workers and firms, in view of the fact that, as the original act foresaw, it might be possible that firms which are really suffering from poor management and efficiency factors or purely domestic consumption preferences could slide under this program and seek adjustment assistance; whereas really their injuries are not due so much to trade factors as to factors relating to the domestic economy or their own operations.

I think it was with that end in view.

Mr. STEELE. Is there a basic philosophy here, though, that Government programs can be more helpful in attempting to help individual

workers than they can be in redirecting companies and industries to become more profitable, or to find new and more viable fields?

Is this a philosophy that runs through your studies and your findings?

Mrs. HINERFELD. Even though we just addressed ourselves, at this point, to the issue of adjustment assistance, we indicated that a worthy area for expansion might be the relationship of injuries to workers and firms in any area where Federal policy has caused dislocation, such, as I said, the environment or defense spending. We have to see adjustment assistance and converging problems in terms of overall national policies, economic policies, employment policies, and an overall policy relationship between domestic economic factors and international.

I think that the broader scope is desirable, because first, all the factors are interrelated; and second, these programs will cost money, have to be seen in terms of national priorities and the whole budget.

When it comes, for example, to retraining and benefits of adjustment assistance, these cannot be seen in a little package by themselves but have to be seen in terms of national policies toward retraining and relocation and so forth, for whatever cause.

Mr. STEELE. Thank you.

Mr. CULVER. Thank you very much, Mrs. Hinerfeld, for an excellent presentation today. I do hope that you might be able to send to the committee any other materials and information that we would like to make part of the record at this point, if there is no objection. I know it would be useful to us.

Mrs. HINERFELD. Thank you very much for allowing me to testify.

Mr. CULVER. Our next witness this morning is Prof. Stanley D. Metzger. Professor Metzger is the former assistant legal adviser to the Department of State. He is also the former Chairman of the U.S. Tariff Commission, and during the period, in my judgment, when the Tariff Commission began perhaps for the first time in a serious way to confront the problems of adjustment assistance.

He has, as well, been a most impressive contributor to the Williams Commission study by bringing before that Commission an extremely informative article on the subject of adjustment assistance.

Professor Metzger is certainly a welcome mentor to guide the subcommittee in its initial look at trade adjustment assistance.

We are delighted to have your participation, and welcome you here this morning.

STATEMENT OF STANLEY D. METZGER, PROFESSOR OF LAW, GEORGETOWN UNIVERSITY LAW CENTER, AND SENIOR FELLOW AT THE BROOKINGS INSTITUTION

Mr. METZGER. Thank you very much, Chairman Culver. It is a great pleasure to be here.

My name is Stanley D. Metzger. I am professor of law, Georgetown University Law Center, and, on a part-time basis senior fellow at the Brookings Institution, where I am engaged in certain studies in the international trade area.

From 1967–69, I served, while on leave from Georgetown, as Chairman of the U.S. Tariff Commission. From 1946–60, I served in the

U.S. Department of State as assistant legal adviser for economic affairs.

What I say here should not be attributed to either Georgetown or Brookings, which do not take positions on the matters which preoccupy the committee.

The concept of adjustment assistance to firms and workers adversely affected by imports spurred by the lowered trade barriers consequent upon the operation of the trade agreements program has had a long period of gestation. Indeed, it may be said that a program for such assistance has not yet emerged.

These hearings are being held in large part because we are still trying to fashion a meaningful program of such assistance, despite the fact that 10 years ago the Trade Expansion Act purported to do just that.

I will not attempt here to describe in detail the origins of the program, or the provisions of the 1962 act. This has been done, most recently in a series of papers presented a little over a year ago to the Williams Commission—the President's Commission on International Trade and Investment Policy—and printed in the volumes accompanying its report of July 1971, and somewhat earlier, in 1970, similar studies were presented to the Ways and Means Committee when it was considering the so-called Trade Act of 1970, which failed to become law.

Nonetheless, some history seems required in order to put our present position in perspective.

It was made clear at the outset of the trade agreements program in 1934 that its purpose was to assist American industry and agriculture, not to cause it injury.

By expanding our export markets and opening our own market to more imports, it was believed that more jobs, higher standards of living, and more efficient allocation of the resources of our country, and that of our trading partners, would be achieved than had occurred in consequence of the experience under the Smoot-Hawley Tariff Act of 1930.

That act—the Smoot-Hawley Act—had pushed our tariff to the highest levels in our history. It had called forth protests from 34 countries. As the historian, Carl Becker noted:

> By offending nearly every important country in the world, it played its part in destroying whatever little amity and good will among nations there was left.

Smoot-Hawley had caused grave injury to American industry and agriculture. The share of the United States in the world's foreign trade fell by almost 30 percent from 1929 to 1933, as foreign countries, in Cordell Hull's words, "retaliated in kind."

As he noted, in 1 year, Switzerland's exports to the United States fell off 30.5 percent, as compared to a general decline of her exports of 11 percent. Her imports from the United States decreased 29.6 percent, compared with a decrease of 5.4 percent in her imports from all countries.

While expansion of access to foreign markets was the principal means of assistance to American industry and agriculture afforded by the trade agreements program, certain safeguards against actual

or threatened serious injury due to imports were incorporated into the program.

Before agreeing to reciprocal tariff concessions, our Government screened foreign requests for such concessions from the viewpoint of whether they would likely cause or threaten serious injury, refusing to negotiate on those items which hearings and investigations indicated might so result.

Later, this was codified into specific "peril point" limits, and still later, in the 1962 act, these delusive specific limits were eliminated, while retaining the requirement that there be Tariff Commission findings concerning the economic effects of putative American concessions before negotiations could ensue.

Moreover, if, despite these efforts, increased imports in consequence of consessions caused or threatened serious injury to the domestic American industry producing like or directly competitive articles, "escape clause" actions, temporarily restoring the preagreement rates, or even raising them or imposing temporary quantitative restrictions, were authorized.

The story of the six multilateral tariff negotiations since 1947, culminating in the Kennedy round of 1967, has been oft told, as has been the story of the fivefold increase in world production and trade during the past quarter century, as tariffs have come down.

Unprecedented growth has accompanied these developments. A quarter century ago a national politician who called for a future of "50 million jobs" in America was considered a visionary. Today anyone who is satisfied with our 80 million jobs is a mossback. Our exports of over $40 billion annually contrasts sharply with $2 billion before the 1934 act.

It was perceived nonetheless from the early 1950's that there were inadequacies in the protective devices accompanying the trade agreements program. Escape clause tariff and quota relief, by "taking it out on imports," adversely affected our export industries, as well as causing difficulties for our foreign economic and political relations generally, as any actions by the world's largest market economy toward closing its market caused tremors elsewhere. When tightening criteria for escape clause relief in 1962, the Ways and Means Committee specifically noted that escape clause relief "necessarily had an impact on our total foreign economic policy," as we granted compensation to our trading partners or saw equivalent concessions withdrawn.

Moreover, escape clause tariff and quota relief were available only when an entire industry was injured—not just some firms and groups of workers, and this type of tariff and quota relief might be of little, if any, help to some firms and workers even where it might help the industry as a whole.

In 1954 the president of the United Steelworkers of America proposed a system or adjustment assistance for workers impacted by imports, within the framework of a continuing liberal trade program which the AFL–CIO supported for a generation beginning in 1934.

Bills to that effect were introduced by Senator John F. Kennedy among many others. In 1962 the Trade Expansion Act incorporated the idea of such assistance to firms and workers in its title III. But in doing so, the administration and the Congress were extremely cau-

tious. Not knowing the costs, those concerned with budgetary matters were anxious that eligibility criteria for relief be tightly drawn, and that benefits not be overly generous.

In addition, there was some concern about treating worker displacement because of imports differently from the treatment accorded for other impersonal reasons, such as shifts of production from the Northeastern to the Southeastern part of the United States. While special treatment—retirement benefits, unemployment compensation, and so forth—had been provided in the past to certain groups of workers, such as railway employees under separate statutes, this had been closely related to the special nature of the industries involved, not to the general economic factors which might possibly be isolated as the cause of industry's discomfort.

There was a lively appreciation by Congress that there were multiple causes for industry dislocations and concern that allegations would suffice for proof that imports were the effective cause of difficulties.

At all events, the results in the 1962 act reflected the novelty and the uncertainties surrounding the adjustment assistance program, in terms of eligibility for firms and workers, and in terms of benefits for firms. As the committee is aware, the Congress prescribed strict eligibility criteria for adjustment assistance in the 1962 act, framing the statutory language in the same tightened form as that which it employed for escape clause relief.

Before a group of workers or a firm could receive assistance it had to show (1) that a trade agreement concession had been the major cause of competing increased imports—that is, the most important single cause, and (2) that those increased imports had been the major cause of actual or threatened serious injury to the firm or group of workers.

While there was very limited evidence in legislative history—there was none in statutory language—for believing that Congress did not require precisely the degree of causation in adjustment assistance as in escape clause cases, little comfort could be derived from this by an administrator who was sympathetic to adjustment assistance but nonetheless considered it mandatory that he be faithful to his duty to administer a statute to effectuate congressional purposes. The congressional mandate for tight causation was all too clear.

The significance of this tight causation can be seen by example from just one circumstance that may be noted. Until the Kennedy round tariff concessions of 1967–72, there had been no important American tariff reductions for 16 years, from 1951 until 1967. Those of the Kennedy round were staged to take effect beginning in 1968.

Thus, in practically every adjustment assistance case, the union or firm asking for relief had the unenviable burden of trying to convince the Tariff Commission that a duty reduction in 1951 was the major cause of injury which first began to be felt, through unemployment, loss of sales, and so forth, some dozen or more years later—nothing adverse having happened in the intervening dozen or more years after 1951, in the early part of which, of all times, one would have expected some trade impact from the concession. Is it any wonder that the Commission found that no cases had met the test in the 1962–69 period?

Apart from that, the period in question, 1962–69, was one of rising employment, higher wages, higher profits, and general prosperity. Thus, an all-too-typical case presented to the Commission was one where a company decided to close an old plant in Toledo and shift production to a new plant in Flint, while desiring to maintain as much good will as it could when laying off its people.

One way—perhaps not the most courageous, but certainly an all too human kind of failing—was for the company to announce that "imports are causing the plant to shut down."

From 1969 to date there have been a number of cases in which a sharply split Tariff Commission has found a case to have been made despite the stringent criteria of the law, though of late, with changes in personnel, there have been a large proportion of negative determinations.

I will not comment on the merits of these cases, or the disingenuousness of those who managed somehow to find that the cases stood up, other than to say that they do not offer a solid foundation for expectations that the future will be substantially better than the past in terms of an effective program for adjustment assistance under the 1962 act's provisions. In other words, new legislation is clearly required.

The substantive provisions of the 1962 act were better for workers than for firms. Adjustment allowances of 65 percent of the workers average weekly wage, but not exceeding 65 percent of the average weekly manufacturing wage, was better than State unemployment compensation levels at the time, especially in the absence of union contracts calling for supplemental unemployment benefits.

The duration of these allowances at the time—52 weeks, plus 26 additional weeks to assist a worker taking training to complete that training—was substantially in excess of the duration of State unemployment compensation benefits. Relocation allowances for moving to new jobs were additionally helpful.

Benefits for films were meager, and were available only after a complex procedure, involving the preparation, submission and approval of an adjustment proposal, for which technical assistance might well be required. Even then, low interest loans bearing the going rate, but not less than 4 percent, bearing maturities no longer than 25 years, with technical assistance such as market analyses, and somewhat liberalized tax carryback loss treatment, were the only special advantages offered.

Whatever may be thought of the level of benefits as of 1962, they were difficult if not impossible to come by, as we have seen, and by today's standards are not very attractive to workers or firms.

Clearly by 1969, there was what may be termed a rolling consensus in favor of liberalizing eligibility criteria for adjustment assistance, and by 1971 this had extended to greater benefits as well. Despite this, no action has been taken because adjustment assistance eligibility liberalization as recommended by the Roth report in early 1969 was made a part of the administration's trade bill in 1969, and of the ensuing H.R. 18970, the so-called Trade Act of 1970, which failed of enactment.

Thus, the adjustment assistance provisions of that bill, relating both to liberalized eligibility and workers' benefits, which were not really

controversial, are not law today because they got caught up with the other features of the bill which were deemed by many to be highly protectionist and thus very controversial. The Williams Commission report adopted the liberalized provisions of H.R. 18970 and suggested certain additional ones relating to benefits.

A distillation of these reports and bills discloses the following proposed changes in eligibility criteria:

(1) No causation need be shown between increased imports and a prior trade agreement concession.

(2) An increase in imports which contributes substantially to causing or threatening serious injury to a firm or group of workers is sufficient causation—no more "major" causation.

(3) The Tariff Commission's role would be limited to a factual investigation and report, with no conclusions, opinions, or judgment.

These three changes are reflected in H.R. 18970, the so-called Trade Act of 1970.

(4) The eligibility determinations would be made by the President or his designee (H.R. 18970), or by a new Office of Trade Adjustment Assistance—Williams Commission.

I believe these changes are helpful and personally will opt for the Williams Commission proposal of a new Office of Trade Adjustment Assistance. There might also be further liberalization of (2) above, which is the causation of serious injury requirement, where, as you recall, I said the bills call for a level of causation which "contributes substantially."

I think there could be liberalization of this along the line of the Automotive Products Trade Act of 1965, which dealt with the special case of increased automotive imports in consequence of the United States-Canadian Agreement Concerning Automotive Products.

Under that agreement, if there was a decline in U.S. output of the product and an adverse change as by increased imports or decreased exports, in the flow of trade with Canada, a direct relationship between the dislocation and the operation of the agreement was presumed to exist, subject to being overcome only by a Presidential finding that the operation of the agreement was not the primary factor causing or threatening the dislocation.

If this were to be transposed to the proposed eligibility criteria I referred to earlier, this would mean that increased imports would be presumed to contribute substantially to declines in employment or profitability in the absence of the Office of Trade Adjustment Assistance's finding that they did not so contribute—shifting the burden.

I believe that these eligibility criteria would result in a workable program so far as eligibility is concerned. In my opinion, they go as far as is desirable in a program which ties adjustment assistance to import-impacting. This means that I believe that H.R. 13854, introduced about a month ago, of the 92d Congress, goes too far, if we speak of an import-related program.

That bill would require the mere coincidence of (*a*) actual or threatened dislocation of workers, (*b*) appreciable decrease in production of the imported article by the workers' firm, and (*c*) appreciable increase of competitive imports, or decreases in competitive exports greater than the foreign decrease in production of the competitive article.

The lack of any causation connection amongst these elements appears to me to deprive such a program of the essential element of true import-injury relationship. It would also tend to inflate beyond the already enlarged limits which are consequent upon the liberalization of eligibility which I have outlined, the putative connection between imports and injury. For I think it must be recognized—as a price to be paid—that those interested much more in import restraint than adjustment assistance will no doubt use any statistics concerning alleged employment effects of imports and costs of benefits for adjustment assistance as an argument for trade restraint.

There was one change proposed in H.R. 18970—the so-called Trade Act of 1970—and not repeated by the Williams Commission, which was most unfortunate and in my opinion should not be repeated in the future. That bill, the old H.R. 18970, would have denied discretionary authority to the President to provide adjustment assistance whenever he was in receipt of an affirmative "escape clause" tariff or quota relief finding and recommendation. This provision would have turned around completely the conception upon which adjustment assistance was based.

It would have made adjustment assistance a kind of booby prize to which firms and workers are relegated after they have tried to curtail imports through bringing escape clause cases. I will not comment here on the escape clause proposals of that bill, as beyond the scope of these hearings that you are holding here as I understand them.

Now with respect to the proposed new benefits, neither the Roth report nor the administration's 1969 bill proposed expanded adjustment assistance benefits. Both H.R. 18970 and the Williams Commission did so; the first in regard to workers, the second in regard to both workers and firms.

Workers' benefits:

(1) H.R. 18970 would have increased workers' benefits by raising trade adjustment allowances from 65 percent of the workers' average weekly wage or 65 percent of the average weekly manufacturing wage to 75 percent of each. It could have reduced benefits by requiring that petitions be filed within 1 year of the commencement of their unemployment.

(2) The Williams Commission recommended, without detailed specification of new numbers, that there be "administrative or legislative changes," to:

> Make adequate amounts of assistance available as quickly as possible after eligibility has been established;
>
> Provide greater incentives, including wider benefits, to accept training or relocation assistance;
>
> Make allowances available for the full period of retraining, in addition to retroactive allowances paid during a period of unemployment while awaiting retraining;
>
> Give qualified workers the opportunity to pursue technical, professional, or academic as well as vocational training;
>
> Relax the requirement concerning previous work and earnings, thereby enabling recent entrants into the labor force to qualify for the program;
>
> Provide family health benefits for workers in the adjustment assistance program; and

Provide subsidies to allow older workers, who are not yet eligible for full social security benefits, to enter the social security program without reduction of benefits.

In addition, the Williams Commission asked that a way be found, without specifying the way, to protect the pension rights and health and welfare benefits of workers who have to change jobs.

(3) H.R. 13854, recently introduced in the 92d Congress and referred to above would increase adjustment allowances to 100 percent of the average weekly wage, and otherwise liberalize technical requirements along the lines of, and somewhat beyond, those identified by the Williams Commission.

I cannot do more than speak generally in favor of the more technical liberalizations recommended by the Williams Commission and H.R. 13854, and I do speak generally in favor of them. The governing principle, it seems to me, is that qualifying rules should be consistent with a genuine intention to provide adjustment assistance, rather than with a preoccupation with the specter of fraudulent claims.

As to the major numbers involved, I have tended to favor something like 85 percent of the average weekly wage, so recommending to the Williams Commission, largely because the optics of 100 percent, which is the figure of H.R. 13854, and possibly its relative disincentive effects, seemed forbidding, though this may be a sign of advancing age and an insidiously creeping conservatism.

I would also expand the retraining period by doubling it, since the most effective adjustment of the "factors of production"—here, labor—in the United States is in the direction of technologically advanced industries, which require considerably more extensive training than has been considered normal up to now.

On firms benefits, the Williams Commission, unlike the Roth report, administration bill, and H.R. 18970, as well as the recently introduced H.R. 13854, proposed certain extensions of benefits to firms as well as workers. I believe that most of these are salutary, again referring to the governing principle mentioned awhile ago. These include more attractive terms of financial assistance and interim financing between approval of a plan and delivery of assistance. A greatly simplified and more informal adjustment proposal procedure would also be helpful.

The Williams Commission also recommended that the new Office of Trade Adjustment Assistance which it proposed should "explore means of amplifying the adjustment assistance program" to permit: Coordinated proposals covering entire communities that are injured or threatened with injury from import competition, including the establishment of new industries in the affected areas; joint worker-firm and firm-community petitions and proposals; and facilities for collecting and analyzing employment and industrial data, both domestic and foreign, in order to anticipate adjustment problems and identify industries most in need of modernization and those that are most likely to experience changes in levels of employment.

These suggestions appear to be sound. Indeed, I would go one step further, and suggest specific legislative authorization for the office itself to develop and put into operation community development programs, which are so important to towns and small cities which see job-producing plants reduced or removed. No doubt there is a body of

experience from which it could draw in formulating and effectuating such programs, in an effective and relatively efficient manner.

Two of the Williams Commission recommendations concerning benefits to firms appear to me to be highly doubtful at this stage. The first of these would limit benefits "normally" to "small businesses." I see no reason to embark upon the semantics of differentiating firms on the basis of size in this kind of program.

The second calls for changes in our antitrust laws or administration to permit mergers where import competition results in "serious difficulty." No case was made by the Williams Commission that current administration of merger statutes is inadequate in this respect. I would not tinker with antitrust in the absence of such a case, since mistakes in this area are highly likely to be quite costly to our economy, to say nothing of their other effects.

To conclude, it is difficult to believe that a substantial increase in workers' and firms' benefits as recommended here would be an unduly burdensome cost to the United States, especially when one considers that it is so closely connected with the sensible trade policy which we have been pursuing during the past generation with success. Such a program would be fully consistent with a decent recognition of the equities of those affected by impersonal forces.

The improvements in the procedure and in the substance of adjustment assistance which I have urged would, if effectuated, mark an impressive advance in our ability to assist firms and workers to adjust, as a dynamic society seeks to serve the needs of its people through the most efficient allocation of all of its resources, human and material.

These improvements would indicate, so it seems to me, that the Government is readier to recognize its obligation to provide for the general welfare by easing the path to economic health and well-being of those who are thrown out of work or enterprise by impersonal forces, regardless of the extent to which they are "internal" or "external," than it was in 1962.

Eventually, I believe, it should make no more difference in benefits or otherwise whether there is any alleged connection, however remote, between imports and adversity than when the cause of adversity lies elsewhere. These changes might hasten that day.

It must be added, however, that a fundamental condition of adjustment assistance so long as it is related to imports—indeed, it raison d'être—is assistance to firms and workers to adjust to that increased import competition which a liberal trade policy attempts to encourage.

In addition to the other multifarious casualties that a reversal or serious impairment of a liberal trade policy entails, such a reversal or impairment must inevitably make meaningless and eventually superfluous assistance which is not connected with such adjustment.

In short, firms and workers have no moral case for special import-related adjustment assistance if they are unwilling to adjust to increased import competition, and I would submit to you gentlemen that what they have no moral case for, they will stand an excellent chance of losing, as a democratic society progressively understands its processes.

Thank you very much.

ADJUSTMENT ASSISTANCE VS. TRADE RESTRICTIONS

Mr. CULVER. Thank you very much, Professor Metzger, for an extremely valuable statement. You have provided us, I think, with some excellent suggestions by way of guidance for the inquiries of our hearings in the weeks ahead, and I appreciate it very much.

As you say, trade adjustment assistance fits as a concept into our overall foreign economic policy of liberal trade on a reciprocal and a most favored nation basis dating back to 1934, but some now say, as you are aware, that this premise is out of date, that it is passé for failing to take account of the discriminatory and the restrictive trade actions that are increasingly being taken by other nations at the present time in the world.

This argument goes on to say that, therefore, before we can look at adjustment assistance, we have to act tough with our foreign competitors to get them back into line and then we can concern ourselves with some of the niceties like trade adjustment assistance.

What is your comment to that argument?

Mr. METZGER. I don't agree with it, Mr. Chairman. I think this is the wrong way to go about securing foreign relaxation of restrictions just as for them to raise barriers to trade would be the wrong way to go about getting us to relax on our restrictions.

While the world has made a good deal of programs, since 1934, in reducing trade barriers, it has been progress, it has not been a complete success. It has not been a success on the part of any of the participating countries—all have made progress, all have a long distance to go. I am convinced that the way to go is toward progressively reducing barriers on both sides and continuing and intensifying the liberal trade program upon which we have embarked, not the reverse.

I think that if we proceeded otherwise we would go back to the pre-1934 condition in a hurry, and I think this would be bad for everybody.

ANTITRUST POLICY

Mr. CULVER. As to remedies for import injury, there are some who suggest that we cannot have an effective adjustment assistance program unless we include basic modification to our domestic antitrust policy. They point out that it is essential that there be some appreciation of the need for active encouragement of mergers in affected industries. Do I understand you correctly to say that you would oppose any movement in this direction?

Mr. METZGER. I think that what has been happening, Mr. Chairman, in so many American industries, especially in the industries in which there is a high labor element in production, is that there has been a so-called steady secular rationalization in those industries. You have seen growing concentration in most of the major industries which have been most vocal in terms of desiring import restraints such as textiles, shoes, and the like.

You have seen growing concentration in those industries as the marginal firms become merged with the larger ones. You have seen the larger ones growing larger, and this has all taken place under the existing antitrust laws and their administration.

This secular trend does not seem to have been stopped in its tracks by the existence of antitrust, and no doubt it will continue in some degree. No case has been made to my knowledge that it is necessary to relax the antitrust laws in order to permit this trend to develop or continue.

It has been a continuous trend for years now, and this under the present antitrust laws. Until a persuasive case can be made that it is necessary to relax antitrust requirements in order that such rationalization as may be economically desirable would ensue, I would not be prepared to do so because the dangers of doing so are quite obvious. You can overshoot the mark.

GOVERNMENT PROGRAMS AND THE FREE ENTERPRISE SYSTEM

Mr. CULVER. I have recently, actually this past week, had the opportunity to visit in Europe with those people most actively involved in the administration and the consideration of the problems in trade adjustment assistance as brought about through their experience in the Common Market and the adjustments to the development of the economic changes there.

I also had meetings with people in the OECD who are increasingly turning their attention to this problem of how we can devise mechanisms to deal more effectively with adjustment assistance.

One of the things that, of course, continually presents itself is the seamless web of interaction in relationships between the domestic economy and the way it operates, and the general assumptions concerning traditional free enterprise. How do you reconcile the administration of the economic and social system with the necessity to make these kinds of adjustments and reallocation of resources—financial and manpower—comparatively and consistently with a basically free economic system?

Really one of the things that repeatedly presents itself in the absence of an overall detailed economic plan for a society is that when we talk about reforming the adjustment assistance program or devising new ones, there is this problem of the value and the importance of the creation of early warning systems.

How do you anticipate these situations? How do you isolate them before the employment conditions and the dislocation becomes so aggravated that the political response is difficult to deal with rationally, and the cost by way of benefits and training alternative becomes prohibitive?

Could you discuss for us some of the practical problems associated with this objective, particularly the timely and the accurate collection of objective data and its proper interpretation and dissemination?

It seems to me this is one of the very important aspects of the adjustment problem, and that we have to give a lot of serious thought to it before we get into the actual mechanics of how the Government should properly respond.

How do you mesh and reconcile some of this with all of our traditional notions of a free enterprise economy?

I know some of these are philosophical questions, but I think it would be useful to the committee if you could talk to the points because I

think they are fundamental in terms of our ability, particularly given the special nature of our economic system in this country to deal with adjustment, and to accept the basic premises implicit in a trade adjustment assistance program if it is going to be meaningful.

AN EARLY WARNING SYSTEM

Mr. METZGER. I think it is a very difficult question that you ask. It is very difficult to devise a so-called early warning system. This is particularly true because I think that the major factor, to use a term of art—I am convinced that the major factor causing major dislocation anywhere is technological change. This has been, for the past century, the real origin of change in the economy, and it has occurred in all economies regardless of the degree to which they are free enterprise economies, the degree to which there is more indicative planning, all the way to the most planned economies.

Mr. CULVER. Excuse me.

Professor Metzger, you made reference to the alteration in Government procurement programs and the change in national priorities—space exploration and defense industries—as good examples.

Mr. METZGER. Certainly. It seems to me that in terms of technological change, to know where it is coming, to attempt to indicate what its employment effects are going to be, does require a collective effort.

This is one of the virtues of having a separate agency or office such as the Office of Trade Adjustment Assistance, so that it can get this kind of information and make forecasts which it can disseminate. This sort of thing would probably be as useful as anything else.

In connection with this, of course, it would have to have close lines laid with the industry associations—with what is happening in the fields of productive enterprise in the United States. It would thereby enable itself to inform its public as to what the likely changes were to be, perhaps to begin retraining a little ahead of time, perhaps not to give trade adjustment allowances unless there is a threatened serious injury, but to be able to do so where it is very clear that the threat is not merely no bigger than a man's hand, but is much more imminent. You have a problem of imminence whenever you have a problem of substantial expenditures.

I don't think you have a problem of imminence when you have retraining benefits, and I would tend to distinguish on degrees if imminence of the threat of serious injury between retraining and actual cash allocations.

But even that kind of distinction might disappear, and this new office might conceivably be able to develop sufficient expertise in the area so as to permit substantial expenditures on the basis of its forecasts.

It would take a little time, perhaps, but something along this line, with a particular eye toward technological change, would, it seems to me, be quite useful.

In terms of the subsidy aspect of it, Mr. Chairman, I am not terribly concerned about the subsidy aspects of general R. & D., research and development activities, by Government.

We have had a long history in the operations of our basically free

enterprise economy of having Government-sponsored R. & D., going back a quarter of a century at least. We have always considered that there has been a social responsibility on the part of the Government to foster science and industry. It goes back to the earliest days of the Republic, when we started the patent system simply in order to foster science and industry.

The patent system is nothing more than a subsidy. It gives somebody a monopoly for 17 years in exchange for his inventing something.

This kind of a subsidy system is part of the society we have, and I am not concerned when there is some proliferation of it into other areas such research and development which are required in order to keep pace with technological changes.

THE ROLE OF TRADE ASSOCIATIONS

Mr. CULVER. One difficulty that I perceive in the European experience and also in terms of the nature of our own political domestic pressures in this country is that so many private trade associations and groups—even if they are, of course, ideally positioned to be most sensitive and aware of alterations and changes in terms of their market opportunities or their sales opportunities—seem to have an entrenched bias and preference for the status quo, the protection of the obsolete. They seem to lack the political courage and farsightedness to take the leadership and point out in the long term the enlightened self-interest of the industry—where they should make new adjustments on their own initiative, which would represent the long-term economic market gains and adjustments very preferable to industry.

Do you agree that, ideally, the trade associations themselves should be giving this kind of leadership, both in terms of adjustment to technological changes as well as export-import changes brought about by trade agreements, but they are not doing that, that they don't generally do that, and that they are really far more interested in preservation of the status quo of a particular prescribed percentage of the market, and that they use their political and economic energy and resources to maintain this status quo.

Would you agree with that?

Mr. METZGER. A number of them do.

The trade association, of course, is a little bit like the United Nations—it represents its members, it does not have an independent existence.

The trade association, in my experience, represents its members by making tradeoffs. These members scratch each other's back. They will opt for trade restraint when a significant number of firms seem to want it, and other firms, in exchange for benefits that they wish to get from these members of the industry, will go along. Even though they might not like it, they will go along with a proposal for import restrictions.

I recall the time when the American selling price elimination agreement was being debated by the chemical industry. There were several chemical companies which stood to gain as much as they lost by this agreement, and were perfectly willing to see ASP go down the drain and not worry at all about it.

Some of them told me, however, that because some of the companies wanted ASP retained, they went along with the trade association's taking a monolithic position against eliminating ASP.

You have an awful lot of this kind of tradeoffs within the politics of a given industry.

There are many trade associations which have not adopted import restrictive policies. Over the years, despite the very substantial increase in imports, the automobile industry has not taken a general protectionist line, and there are other industries that have not.

Now, it is true they have been beset—they have been under pressure to do so, but where the trade associations have succumbed to the pressure, it has usually been as a result of this pressure of tradeoff.

Mr. CULVER. Congressman Whalen.

THE COST OF TRADE ADJUSTMENT ASSISTANCE

Mr. WHALEN. Thank you, Mr. Chairman.

Professor Metzger, I wondered if we might talk about costs, if you have that information available.

Do you have any statistics from your studies with respect to the subsidies that were granted, let's say in 1971, or 1970, to labor and to firms under the 1962 act?

Mr. METZGER. I don't have those figures offhand, Mr. Whalen.

Mr. WHALEN. Could you make a stab of it?

Mr. METZGER. I have a recollection which is vague, and I would not want to be held to it, that, for example, the benefits under the United States-Canadian Automotive Products Agreement ranged about $4 million to workers during the first 5 years of its existence.

I believe that that is the figure. It is in that range.

So far as the benefits to workers under the very limited number of cases that came up before the Tariff Commission in the period after I left it, I don't have the cost figures on that. I don't think it is astronomical, by any means. Workers' benefits and firms' benefits I think have totaled less than $5 million.

HAS TRADE ADJUSTMENT ASSISTANCE BEEN EFFECTIVE?

Mr. WHALEN. So we are not talking about much.

From your own study of it, could you assess the effectiveness of these two programs in the light of their limited application? Have they been successful?

Mr. METZGER. I don't think a real program has had a trial period yet. I think that the only benefits that have been given have been relatively few benefits to workers under the program, and these were really supplemental unemployment compensation benefits for a retroactive period, and to a few firms.

I think it would be hard to make a case that the worker benefits represented an adjustment, or relocation, or retaining. It was largely a matter of giving workers retroactive payments.

You really have not had a fair test.

Mr. WHALEN. What you are saying is that we don't have a test?

Mr. METZGER. That is right. As I say, I don't think you can have one, under the 1962 act.

Mr. WHALEN. With the changes that you have recommended, assuming that Congress adopted them, under present circumstances could you make any kind of an estimate as to what the subsidy costs would be?

I realize this is probably an unfair question.

Mr. METZGER. It is a fair question, Mr. Whalen, but I cannot answer it, nonetheless. I have not made any estimates. I understand that Mr. Bergsten, a later witness, has done so.

I doubt that costs would be astronomical, but that is not terribly helpful.

I am not trained in how to go about making these kinds of estimates. I would be interested. The Williams Commission, which made a good many proposals, did not attempt to put a price tag.

Mr. WHALEN. They did not project?

Mr. METZGER. They did not attempt to put a price tag on the program, so far as I am aware.

Mr. CULVER. Would the gentleman yield?

Mr. WHALEN. Yes.

THE ECONOMIC COST OF PROTECTIONISM

Mr. CULVER. What about the estimates of the cost on protectionism? Could you provide us with something?

Mr. METZGER. Those have been variously estimated as protection costing $15 billion a year to American consumers. In fact, I think that this is an underestimate.

You can identify major segments. As you gentlemen are well aware, the oil import restriction program is estimated to cost $5 to $6 billion.

Mr. WHALEN. These are under present circumstances in law?

Mr. METZGER. Yes. They are very high.

A month ago Governor Brimmer of the Federal Reserve Board, in a speech which was reprinted in the Record at page H2357 and following in the Congressional Record of March 22, just a month ago, talked about both the costs of various specific elements as well as the job effects of the trade program, and the like, and I would recommend that your staff get some of the figures from that.

ELIGIBILITY CRITERIA

Mr. WHALEN. Professor Metzger, you have talked about the United States-Canadian Automotive Act, and the fact that one of its provisions is that it would be implemented in instances where exports have been reduced.

Applying this beyond that act, can you see where there would be any consideration given to situations where exports might be reduced by virtue of American firms constructing facilities abroad to be closer to markets, or perhaps resulting from American firms participating in a multinational organization?

Mr. METZGER. That is in respect of benefits to workers in that very industry.

Mr. WHALEN. In that particular industry?

Mr. METZGER. Yes, I think it might be a factor to be taken into account. How it will be taken into account, I am not too clear, but it

might be a factor that could be taken into account where it could be shown to exist.

Mr. WHALEN. I guess what I am suggesting is, as I pointed out to Mr. Hinerfeld, our trade picture is so much more complex than it was in 1962. Therefore, the job of determining eligibility standards would also increase in its complexity.

I just have one final question, Mr. Chairman.

You have used the percentage of average wage figure. Could you tell me: Is that percentage based on wages before taxes, or take-home wages?

Mr. METZGER. I think those would be gross wages.

Mr. WHALEN. Gross wages before taxes.

The reason I raise the question is that if we use wages before taxes, the base obviously would be higher than if a take-home base is used.

Mr. METZGER. Yes.

Mr. WHALEN. I have no further quesetions, Mr. Chairman.

THE PROPER MIX OF ASSISTANCE

Mr. CULVER. Professor Metzger, what, in your judgment, should be the appropriate relationship between trade adjustment assistance for individual firms, groups of workers, communities, and temporary import restraints for the relief of entire industries? Do you have any thoughts with regard to this question?

I take it that in your basic statement your emphasis was essentially that assistance has traditionally been for the workers affected. But, as you also noted, the Williams Commission talked about assistance which included some form of community relief.

Do you have any sense of the mix we should be looking for, or could you give us guidelines as to the appropriate relationship between these various programs of trade adjustment assistance?

Mr. METZGER. Yes, I have views on that, Mr. Chairman. If a firm or group of workers applies for assistance, and there is no industry petition for an escape clause relief; let's take that case first.

I think at the time of decision that the body that is given the job of deciding the question of the type of relief should have wide discretion, once eligibility has been established under the relaxed criteria that I have indicated, to give both the type of relief that we have talked about, to firms and workers, and also a program of community assistance, a program of specific programs relating to the particular communities where the plant shut down or reduced. I think they should have wide discretion in this respect.

I think, likewise, in the case where the industry or firm or trade association or union has applied for an escape clause relief tariff and quota relief for the whole industry, and has also applied for adjustment assistance and the Tariff Commission makes a finding that the escape clause criteria have been met, and sends it to the President, the President or the Office of Trade Adjustment Assistance should have complete discretion, as in the 1962 act, to give escape clause relief, or in lieu thereof, expand adjustment assistance such as through assistance to the community of workers, because the point there would be that if he could ease the pain, if he could take care of the problem by

domestic measures rather than upsetting our total economic foreign policy, it is obviously the right way to do it. For the minute he takes action to restrict imports he is simply taking away benefits from an export industry, because there will have to be compensation to, or a withdrawal of concession by the foreign country affected under our trade agreements, in order to restore the economic balance of the agreements.

So the President should continue to have this discretion, and I would hope that he would exercise it, and would only use the escape clause route in the case where it was impossible to handle the problem through adjustment assistance, and then only for the smallest time possible for temporary adjustment.

This, I think, is the way the programs should operate together. Obviously, in order to do this, one has to have an effective adjustment assistance program. This is why I think that what you are doing in this committee, Mr. Chairman, is so greatly to be commended, because I think an adjustment assistance program has got to be in existence in order for the President to withstand these kinds of pressures for import restraints.

INTERNATIONALIZATION OF TRADE ADJUSTMENT ASSISTANCE

Mr. CULVER. Based on your experience with the Tariff Commission and in your other Government and non-Government capacities, do you have any thoughts on the prospects for reaching some kind of international understanding on minimum adjustment assistance goals, or has there been any experience where on a multilateral basis major trading partners have really focused on this in a serious way, and talked about reciprocity of responsibility in terms of cooperation and guidelines?

Just what kind of activity have you ever perceived in this way with regard to the problem?

Mr. METZGER. If you are referring, Mr. Chairman, to adjustment assistance by way of domestic measures, not by way of import restraint, there has not been any international agreement. I think it is very difficult to foresee it, and I don't think it is important for there to be international agreement on domestic adjustment measures.

As you pointed out earlier, foreign countries' methods of organizing themselves economically, their levels of living, their levels of wages, the relationship between money wages and non-money wages in those countries varies widely. There has been very little meaningfully done in this area.

As I say, I don't feel it is important that there should be. The important thing is that they not try to take it out on each other's imports. That is the important area, and this is the area which, of course, has been dealt with. You have the escape clause criteria of the General Agreement on Tariffs and Trade, and past efforts to deal with other measures of this kind.

Mr. CULVER. On a bilateral basis, in terms of resolving a more satisfactory adjustment than the imposition of tariffs and quotas, have you ever given any thought to the possibility that the exporting nation that is achieving a significant import advantage in a particular country might enter into negotiations with the country involved and

work out some formula whereby the cost of the trade adjustment assistance program would be financially assumed by the exporting nation as a substitute for the cost to them in terms of import restraints? And along with that there would be an understanding that they would continue to enjoy a certain percentage of the market on a declining basis to ease the impact to them?

What I am really trying to explore with you is the possibility that we should think in terms of formulas between states involved in trade whereby the exporting nation, rather than be confronted with the quota and the tariff protectionist response by the country affected, would enter into an agreement whereby they would financially assume some of the adjustment costs in return for a guarantee of a certain market percentage.

Mr. METZGER. Yes; I think I see what you are saying, Mr. Chairman.

I have not heard of any such efforts having been made. I can foresee serious difficulties with it.

For example, as I understand your proposal, you would be asking the American aircraft industry to subsidize adjustment assistance in countries where they have been selling aircraft for many, many years—to subsidize the movement out of the aircraft industry of those countries who don't produce many good planes. The aircraft industry of the United States would be asked to subsidize the adjustment assistance cost of moving the aircraft employees out of the Italian airplane plant and into the Fiat automobile plant.

It would be asking a bit to do that.

Mr. CULVER. In political and economic terms I am not persuaded that we are asking more than we are asking at the present time to do it on a Government basis.

The fact that we have not had a program is a pretty good indication of the difficulty.

I am just saying in a tough-minded, hard-nosed business deal, wouldn't the exporting country see the financial advantage to them to participate in a cooperative way so that they can be guaranteed a continued access to this favorable market that they wish to see preserved for a future profit.

Mr. METZGER. Well, it would be an interesting wrinkle in trade on the basis of comparative advantage. It would tend to be a little bit different from the way trade has been conducted up to now.

I am not saying that it should not be examined.

Mr. CULVER. This might have the advantage, possibly, of involving the private sector in a participatory way with governments so that in terms of the degree of political support that they would be giving their respective governments, it would be a more constructive way to deal with the problem than through the traditional protectionist response.

Mr. METZGER. I think the idea requires a good deal of study, Mr. Chairman. I think it is well worth having that study.

THE RESPONSIBILITY OF MULTINATIONAL CORPORATIONS

Mr. CULVER. What do you see as the appropriate role and responsibility, Professor Metzger, for multinational corporations in adjust-

ment assistance policy? What do you envision their role to be in terms of assisting adjustment?

Mr. METZGER. It is hard for me to separate out the multinational corporation from the so-called nonmulticorporation, particularly in industry. Is not the multinational corporation really a corporation which has branches elsewhere?

I suppose there are various ways of defining the multinational corporation. One way is if the corporation is owned by some foreigners as well as domestic source income, but that is very difficult, because so many corporations have varying degrees.

The other way of defining a multinational corporation is a corporation that operates through branches or affiliates in more than one country. That means an awful lot of corporations.

In dealing with import impacting, no distinction has been made up to now on the basis of who owns the industry, or what its affiliations are.

If plant A of corporation B is shut down because of alleged import competition, it does not make any difference whether corporation B is a so-called multinational corporation or owned by a family going back 150 years in a particular locale. The fact that it is a plant, and that it gives employment is the common denominator, all other factors being irrelevant.

I think this is sound, because I think we are trying to deal with the human problem of adjustment, and it really does not make much difference, as I see it, who owns the plant, whether it is the oldtime family or the firm in Chicago, or the Chicago firm which also has a plant in Canada.

Mr. CULVER. Mr. Levy.

Mr. LEVY. Professor Metzger, on page 12 of your statement, you refer to H.R. 18970, which I believe was submitted by Congressman Les Aspin.

Mr. METZGER. No; 18970 is the Trade Act of 1970. That was the highly protectionist measure that failed of enactment.

The bill that was introduced by Congressman Aspin is 13854, of this Congress.

I am sorry I keep referring to these numbers, but I refer to 18970 for a very distinct reason. A certain person does not like to be associated with it, so I used the number in preference to the name. The legislator would not like to have it referred to him. It would be much more convenient by name.

Mr. LEVY. I am sorry. I meant to refer to page 11.

Congressman Fraser, who is a member of the subcommittee, unfortunately could not be with us today, but we will certainly bring your remarks to his attention, and he may have some questions for you, which I hope you could answer for the record if he submits them to you.

Mr. METZGER. Surely.

Let me just say that while I think his bill goes too far, for the reasons indicated, I believe that if one used the technique of the United States-Canadian agreement, one goes a very considerable distance by shifting the burden that way, and this is a traditional way.

The Congress has legislated it, and I think it will do the trick, as

it were, without allowing the case to qualify where it is very plain that the company simply shifted its production from Toledo to Flint because it built a new plant, and there was no connection whatever between that and import dislocation, even though imports had gone up, and various other actual circumstances had occurred.

If you shift the burden, as did the Canadian Auto Agreement, I think you will cover all the cases which are deserving, even in a loose description of the term "deserve."

ELIGIBILITY CRITERIA AND THE TRADE CONCESSION LINK

Mr. LEVY. Would your suggested criteria cover the case of a firm injured by unilateral trade action by foreign governments; that is, where no trade concession or agreement is involved?

Mr. METZGER. Yes. In the adjustment assistance case, yes. I would not tie it to trade agreement concession.

THE RELATIONSHIP OF TEMPORARY IMPORT RESTRAINTS TO ADJUSTMENT ASSISTANCE

Mr. LEVY. Following up on Chairman Culver's question on the general relationship of import restraints to adjustment assistance, let me put a more specific question.

Suppose a decision is made to award adjustment assistance. At that point, does it make sense to have temporary import restraints with a specific cutoff date calculated to allow time for the adjustment process to work?

Mr. METZGER. Only if it is necessary, and only if the case for import restriction is made.

While we have not talked about the escape clause here, because we are talking about just adjustment assistance, I would continue to have strict criteria for escape clause relief, because that causes the difficulties which we have been trying to get away from. That is what undermines the trade agreements program, where you have downward spiraling in the form of import restraints.

So I would retain strict criteria for escape clause relief. I would use adjustment assistance if it is possible to take care of the relief by that, but if the escape clause criteria were made, then I would use that as a last resort, and have temporary import restraints to the extent, and only to the extent that adjustment assistance not ease the pain.

THE ADMINISTRATIVE STRUCTURE

Mr. LEVY. I have one last series of questions.

As you pointed out, there is a consensus regarding a need for a clear administrative structure to reconcile and strengthen the currently diffuse arrangements of trade adjustment assistance. However, there are countervailing forces in favor of decentralized administration, so as to increase accessibility of firms and workers in various parts of the country, along the line of the Small Business Administration. Could you comment on this?

Mr. METZGER. It may well be that after a given experience, there

could be decentralization. I would want to take a look at the program as it develops before making a decision.

You don't know how large a program it is going to be, and how many regional offices and how many subregional offices would be needed.

It is a little bit different, I think, from an agriculture program, where you know your areas, and you have to have your people locally, and you have to have the decision made locally, because you know the dimensions of your program from long experience.

At the outset, it was not that way. It became that way. This I think is usually the story with decentralization. The need for having the local office is what caused the establishment of the local office, rather than an a priori judgment, and I would follow the same pattern here.

Mr. CULVER. Would the gentleman yield?

Mr. LEVY. Yes, sir.

ELIGIBILITY AND THE PROBLEM OF STANDING

Mr. CULVER. Professor Metzger, what about the problem of standing to bring a claim for adjustment assistance? Do you have any thoughts for us in that regard?

For example, in the case of an industry the management would do it. Obviously, in the case of the worker the trade union might do it.

But here again it seems to me this is an aspect of the problem that we probably ought to give closer attention in terms of insuring access to this form of relief, and creating an opportunity whereby affected groups have a genuine opportunity to seek this relief.

It may well be that the particular association or a union might make a political decision for a combination of reasons not necessarily in the best interests of the work involved. They might ignore or bypass the opportunity to seek this relief in a particular fact situation.

So I wonder if you have any thoughts for us on the question of standing. We see this issue presenting itself in several aspects of the present public arena—in environmental questions, for example.

Mr. METZGER. I am in favor of the most liberalized kind of standing.

Actually, in the adjustment assistance area and in the escape clause area, this has not been a serious problem in past administrations. The Tariff Commission has been very liberal, has never turned anybody down in his standing to bring the case, unlike the difficulties that you have had in the environmental protection area.

In this area, there has been a great sensitivity toward allowing anybody to bring the case. Of course, you have not had the problem of proliferation of cases.

Mr. CULVER. If we move to more liberalized relief wouldn't it have to be accompanied by certain administrative standards to tie the claims down and avoid the frivolous claims?

Mr. METZGER. Yes; but I would tend to err always on the side of taking my chances on the frivolous claim because very few people spend the time and effort and money that is involved in prosecuting something unless they think they are interested, and if they think they are interested they probably are—they have a pocketbook interest or something that is equivalent of a pocketbook interest in law. So I think we would be best off in a lot of fields of law, Mr. Chairman, in just getting rid of strict standing requirements.

Anybody who is interested enough has standing. I think if we did that it would simplify my job in teaching administrative law because this is what we are coming to—in effect this is what the courts are moving toward, but very slowly.

Mr. CULVER. Of course, if you don't accompany that with some degree of responsibility on damages and so forth.

Mr. METZGER. That is right.

Mr. CULVER. That is a whole new host of other problems in terms of equity.

Mr. METZGER. Yes.

Mr. CULVER. Mr. Levy.

THE ADMINISTRATIVE STRUCTURE

Mr. LEVY. Thank you.

Going back to the question of administrative structure, should we have a single board or a set of boards for the entire economy, or should there be separate structures for each industry classification?

Mr. METZGER. I think the single board, again at the outset. If they get a flood of cases you may have to have sub-boards and so forth. But at the outset I think you should have just the one body deciding it and see if they are overworked or unable to handle matters. I rather doubt that you would have the magnitude of cases at least in the early years so that they are unable to handle the matter. I would only develop regional or sub-boards under the whiplash of necessity.

Mr. LEVY. What about boards for each major industry?

Mr. METZGER. I don't think you need that. I think a person can get his mind around a lot of things. A Federal judge gets his mind around all kinds of cases—the tariff, technical patent questions, et cetera. You change the lingo of industries in the tariff area and you find you are dealing with the same phenomenon.

Mr. LEVY. One last question. Should the administration of adjustment assistance be left to the Federal Government, the private sector, or a mix of both?

Mr. METZGER. I would have it done by the Federal Government. This does not mean that the Federal Government is not assisted by working with private industry groups, unions, and the like, but I think it is Government money that they are spending and the Government ought to make the decision on the spending of Government money.

Mr. LEVY. Thank you very much.

Mr. CULVER. Congressman Whalen.

THE BURKE-HARTKE BILL

Mr. WHALEN. I just have one very simple question, Mr. Chairman.

Professor Metzger, there are of course several alternatives to handling domestic economic problems resulting from making patterns of international trade. We certainly appreciate your insight into the one aspect of it, namely, adjustment assistance, and your proposal for broadened adjustment assistance.

Tomorrow we are going to hear from spokesmen who advocate yet

another approach as contained in Burke-Hartke bill. I don't know whether you are aware of its contents, but I wondered if you might give us the benefit of your views concerning this approach as contained in this legislation.

Mr. METZGER. Well, as I understand, Burke-Hartke contains a variety of approaches; one is cutting back on imports, another is a series of restraints on foreign investment of American capital. I don't agree with either of these approaches. I think that the import restraint route is the old Smoot-Hawley route, which will cause disaster so far as American foreign political and economic relations are concerned, and will cause grave injury to American industry and agriculture. That is the very experience we have had. We went that route once before, and we saw what happened to us.

That dismal experience should double-rivet the proposition that this way of trade restriction is a very grave disservice to the American public generally.

So far as the restraints of American investment abroad are concerned, the whole subject of the study of the so-called multinational corporation is one that has been much talked about in the last few years and much investigated.

I have read some of these investigations. The one that has impressed me as making more sense—and I am no expert in this area—is what the Department of Commerce has been doing in the last few months. They have produced three studies so far, as of March 1972, three studies of foreign investment by U.S. multinational corporations area. To me they make a good deal of sense. One of them is called Policy Aspects of Foreign Investment by U.S. Multinational Corporations, and apropos of the remarks that you are going to hear Commerce's study, a section on the impact of the multinational corporation on employment which is the heart of the problem so far as Burke-Hartke is concerned, because implicitly that bill says that the impact of it is bad; bad for employment in the United States.

The Commerce Department comes to the other conclusion. The Commerce Department, admittedly not on the basis of what one would call a thoroughgoing statistical analysis including all the variables but on the basis of all the evidence that they have been able to come by, comes to a series of conclusion at pages 28 and 29 of the report I mentioned to which I would commend you.

I don't know if you want me to take the time to read them here, but your staff can get copies of this report, and can see what the Commerce Department concludes. It is the opposite of the thrust of Burke-Hartke.

Mr. WHALEN. Has not Brookings made a study on this also?

Mr. METZGER. Brookings has not made a study recently. There was a study made in 1960 based on 1954 figures based on the impact of imports on employment, but that is quite a number of years ago.

Mr. WHALEN. I read a recent article in Fortune magazine and I thought it quoted a Brookings study.

Mr. METZGER. That was a pioneering study at the time, but Mr. Salant has been busy with other things and I don't think there has been a followup study to it.

RETALIATION BY FOREIGN NATIONS

Mr. WHALEN. One final question, and I think your previous answer responded to it, perhaps. The supporters of the Burke-Hartke bill argue that if we enacted this legislation that it would not invite retaliation by foreign nations. Could you respond to that more directly?

Mr. METZGER. It is possible that it would not. I suppose if you cut back on American investments abroad some foreign nations would probably applaud but on the other hand it would not win you anything. You would simply be injuring your own ability to earn foreign exchange. You would be depriving yourself of the foreign exchange earnings consequent upon remittance of profits and earnings from overseas investment. To this extent we would be injuring ourselves by increasing the balance-of-payments deficits which we are trying to minimize.

Certain foreign countries would consider that they would be adversely affected and would be deprived of the input. This would be mostly the less developed countries which would resent failure to develop as rapidly as they might. Some countries might not object, some countries might.

Mr. WHALEN. Thank you, Mr. Chairman.

MOBILIZATION OF THE CONSUMER MOVEMENT

Mr. CULVER. Professor Metzger, I would like to ask you a final question and it is essentially the same one that I asked Mrs. Hinerfield.

Based on your close experience and familiarity with the operation of domestic pressure groups in the area of international trade, do you have any thoughts for the subcommittee on the question of how you could more effectively mobilize the consumer movement in the country so they have a greater degree of educational awareness and understanding of the costs involved, and what are the alternatives? Isn't this really a part and parcel of developing the essential support for an enlightened trade adjustment assistance program itself.

I realize this is a complicated question, but I was curious just what thought you have given to this subject.

Mr. METZGER. Well, Mr. Chairman, I do have some ideas. My experience has been that the American people are basically liberal-trade oriented. The newspapers of this country almost monolithically opposed H.R. 18970 in 1970 and you found publications with as wide a spectrum as the New York Times, the Washington Star, the Washington Post, and many others across the country reflecting the views of their communities opposing trade restrictionism.

I think the American people have never been addicted to restriction. I think fundamentally they understand that to export we have to import, and that living standards are better when there is the widest range of choice of goods. I think the whole argument for liberal trade is fully understood.

What it needs to have in order to put it across is leadership and that leadership has got to be from the top. When you have had leadership from the top for a liberal trade policy, it has been successful. Eisenhower gave that kind of leadership, Kennedy gave it at the time of the

Trade Expansion Act, and we got the best trade acts we ever had in the face of protectionist pressures because we had firm leadership. We had such leadership under Lyndon Johnson. When you have effective leadership from the top calling forth from the wellsprings of the American people their sentiments for liberal trade, you have no more problems. It is when you have ineffective leadership or failure of leadership that you run into difficulty.

Then every special interest group gets the headlines with no competition, no leadership competition, nobody to overarch them, nobody to take the ball away from them and to point out what is in the true national interest. With that leadership—and it has to come from the top—you can win through on a liberal trade policy; without it, we are in trouble.

Mr. CULVER. Thank you very much, Professor Metzger, for a most eloquent statement. We are very grateful for your contribution today.

Because of your special experience and background in this field, I wonder if the subcommittee might reserve the right with you to submit some questions as they present themselves in the course of the hearings, and with your permission have them as part of the record, if there is no objection.

Mr. METZGER. Yes.

Thank you.

Mr. CULVER. Thank you very much.

The subcommittee stands adjourned until 10 o'clock tomorrow morning.

(Whereupon, at 12:48 p.m. the subcommittee adjourned, to reconvene at 10 a.m. Tuesday, April 25, 1972.)

TRADE ADJUSTMENT ASSISTANCE

TUESDAY, APRIL 25, 1972

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY,
Washington, D.C.

The subcommittee met at 10:04 a.m., in room 2172, Rayburn House Office Building, Hon. John C. Culver (chairman of the subcommittee) presiding.

Mr. CULVER. Today this subcommittee begins its second day of hearings on adjustment assistance and its role in U.S. foreign economic policy.

It is important that the subcommittee hear at this early stage from the representatives of the workers most crucially affected in both human and structural terms by any policy which seeks to strengthen or modify programs designed to adapt industries and retrain workers in the light of trade competition.

This morning we shall hear from the AFL–CIO as well as from one of its principal member unions, the United Steelworkers of America. They are represented here by knowledgeable and articulate spokesmen, Mr. Andy Biemiller for the AFL–CIO and Mr. Jack Sheehan and Mr. Meyer Bernstein for the Steelworkers. At a later date, we shall also be hearing from a representative of the United Auto Workers, which is holding its national convention this week.

It is most appropriate and fortunate for us that Mr. Biemiller and Mr. Sheehan are making these early presentations to the subcommittee, since the AFL–CIO has long exercised a strong influence on the formulation of U.S. foreign economic policy. In addition to being one of the most concerned and affected organizations, the United Steelworkers of America was one of the first unions to advocate adoption of a program of adjustment assistance.

In order to stimulate discussion and explore divergent points of view, the subcommittee has also invited Mr. Fred Bergsten of the Brookings Institution, formerly with the White House National Security Council, and who testified in our hearings of last year, to appear with us today.

We will begin, then, by welcoming Mr. Biemiller.

STATEMENT OF HON. ANDREW J. BIEMILLER, DIRECTOR, DEPARTMENT OF LEGISLATION, AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS

Mr. BIEMILLER. Mr. Chairman, I am here, as you stated, to represent the AFL–CIO. I am accompanied by Mr. Nathaniel Goldfinger,

research director of the AFL–CIO, and Ray Denison, one of our legislative representatives.

Mr. Chairman, the AFL–CIO welcomes this opportunity to review the past record, cite present realities, and warn against false hopes concerning adjustment assistance for Americans who need jobs.

Trade adjustment assistance as a meaningful answer to jobs lost from imports is an idea whose time has passed. No amount of patchwork on this idea can solve the Nation's need for new foreign trade and investment policies in 1972.

American taxpayers cannot afford to subsidize the export of their jobs or their fellows citizens' jobs for the benefit of American multinational corporations, nor can America as a nation afford a dole program as a replacement for a diversified industrial society.

We are grateful to this committee for its concern about the job crisis and for recognition that a public hearing on this problem is necessary.

The AFL–CIO is very familiar with adjustment assistance and its promised role. We are also very familiar with what actually happened.

Adjustment assistance was designed as a stopgap for a small group of workers adversely affected by foreign competition, not for the critical onslaught we are suffering in which whole industries are being wiped out, often at the hand of the American corporations themselves.

Adjustment assistance was designed for those few firms and workers who were displaced in old, inefficient industry, not to be a Government subsidy to pay off and quiet the massive numbers of workers affected by sweeping changes in the world economy or by the movement of multinational firms to whatever area of the world pleases their fancy. (See attachment A—U.S. Guide to Taiwan.)

(The doument referred to appears on p. 46).

The concept of adjustment assistance was within a world that is now passed. The concept emphasized adjustment; that is, retraining and temporary allowances for affected workers who needed new jobs.

Today we have a totally different world from that of 10 or even 5 years ago. The sharp rise of the multinational firm, the rise of nontariff barriers, managed economies, and high-powered communications have changed the world and changed the economic forces.

For example, it is now possible to make a group of TV components in one country, fly them to another country for assembly, where labor is 12 cents an hour, and then sell the TV set in the United States for $100—all by the same company with an American brand name.

The world has changed, the problem has changed, the solution must be different, yet many "experts" cling to the outmoded textbook theories of the forties and fifties.

Let's look at the changes here at home. Our imports are now largely in goods that could be produced in the United States. During the 1960's, according to Labor Department estimates, there was a complete turnaround in the U.S. import-export ratio. In the late 1950's, estimates were that roughly two-thirds of all imports were in raw materials. In the seventies, imports are largely in manufactured goods—from every corner of the globe.

A second factor is that the adjustment assistance idea assumed that a firm would be injured from foreign competition, and needed to be helped to reach more efficiency. It was assumed that firms and workers would have similar problems.

The reality is that the multinational firm finds it advantageous, and its stockholders find it rewarding, to move a whole plant and production to Taiwan, Mexico, France, England, or wherever. This is not competition, but a substitution of foreign production. Government and industry figures reveal how severe the problem has become.

It is not one of slight displacement or adjustment. It is wholesale removal of entire industries, with no comparable job replacement.

For example, nine out of 10 radios are made abroad. Also made abroad are one out of six new cars, seven out of 10 sweaters, 19 out of 20 motorcycles, one out of two nails and staples, nine out of 10 baseball mitts.

We import 100 percent of our 35-mm still cameras. We import 96 percent of our magnetic tape recorders. We import 70 percent of our portable typewriters, and over 50 percent of our black-and-white televisions.

The rollcall of decimated, high- and low-technology industries is almost endless. And each day additional industries are threatened, along with the service occupations that back up these jobs.

The question is, How deep is the penetration in every product line? And a more serious question, How soon will production of the item cease entirely in the United States?

For example, we now import more than two-thirds of our nonrubber footwear. C. Strassburger, the leading Brazilian shoe exporter, predicted that "the United States will soon be out of the shoe-producing business entirely."

Under this massive assault, the U.S. community, the blue-collar, technical, and managerial workforce of the affected plants, the political leaders in the locality, and in Congress, simply cannot adjust. How can a stricken area adjust, when the firm is gone, the jobs are gone, the tax base is lost, purchasing power is ended, and a massive problem has been created that puts the burden on an economy being buffeted in virtually every manufacturing area?

The present reality is, therefore, not conducive to adjustment assistance, and the pace is accelerating. In the first 7 weeks of 1972, the press reported shutdowns or cutbacks in the Bendix Corp., Elmira, N.Y. (bicycle brakes); General Electric, Buffalo, N.Y. (semiconductor products); Remington Rand, Elmira, N.Y. (typewriters); Allen Bradley, Milwaukee, Wis. (resistors); General Electric, Cleveland, Ohio (vacuum cleaners); U.S. Shoe Co., Keene, N.H.; Armour Co., Eddystone, Pa. (industrial machinery); and Royal Typewriter, Hartford, Conn. (typewriters).

The people who are now unemployed from these cutbacks will not be satisfied with an answer that tells them to wait for tomorrow's new world of a prosperous U.S. economy. Further, they don't want to be told that they must prove a case for adjustment assistance before a group whom they believe to be hostile bureaucratic technicians.

These workers can no longer be deceived that the loss of their jobs helps benefit the American consumer by the purchase of imports.

These workers do not want a handout from the Government, paid for by their taxes, as a substitute for jobs shipped abroad by giant firms for the stockholders' advantage.

This is the present reality—a massive need for new jobs in an econ-

omy whose industrial base is being narrowed, whose tax base is being eroded, and whose citizens want and need work.

A decade ago, the AFL–CIO conditioned its support for the Trade Expansion Act of 1962 on the promise that adjustment assistance would be available to those workers adversely affected by imports. That promise was not kept. Today, the same promise is made again, with modifications.

But, the world has changed. Trade adjustment is no longer the key issue. To devote precious time to an outmoded concept at a time that new and realistic programs are needed is to dwell in a world that is no more.

The record shows that the idea of adjustment assistance for those citizens harmed by import competition was offered in the form of legislation in 1954, and supported by organized labor. In succeeding years, the legislation was reintroduced, always supported by AFL–CIO, and finally became part of the 1962 Trade Expansion Act.

The chamber of commerce and others who now profess an interest in providing such adjustment opposed the provisions during the 1950's and in the 1962 Trade Expansion Act.

The Committee for a National Trade Policy supported adjustment assistance provisions in 1962. But many of its member firms fought the implementation of adjustment assistance from 1962 until 1972, along with so-called experts and administrative agencies.

Their duplicity then makes us doubt their sincerity now when they have formed other "front" committees to push for their own advantage and against the best interests of U.S. wage and salary workers.

What has been the record of adjustment assistance during its 10-year life?

When adjustment assistance became a part of the law, imports were $16 billion. By 1968, they had risen to more than $33 billion. During that period, when imports more than doubled, the Tariff Commission repeatedly denied the possibility of finding injury as the law was written.

Every petition for adjustment assistance by workers, firms, and industries was denied from 1962 to November 1969, because the language of the law was considered an insurmountable barrier by many legal experts, economists, and the Tariff Commission.

In November 1969, the law was suddenly no longer an insurmountable barrier, and a few of the same kinds of firms and industries whose cases were considered hopeless in the 1960's began to get some token relief.

In late 1969, a few of the same kinds of industries and worker groups that were denied relief in 1962, suddenly were approved for adjustment assistance payments. Glassworkers, electronic workers, shoe workers, textile workers, and others have been both rejected and approved.

Since November 1969, 136 worker cases have been processed and only 44 have received a positive finding of the Tariff Commission. Twelve more were determined by the President.

Of the 56 groups approved for assistance, over 23,000 people should

have received help. About 15,000 of these were reported by the Secretary of Labor to have received it.

This figure seems quite high, because between November 1969, and August 1971, a study by the National Planning Association showed that only a third of those declared eligible for adjustment assistance had actually received it. Cost estimates for the payments to these workers are $38 million.

The labor side of the adjustment record for the last 10 years has shown three general characteristics:

Unfair treatment by the Government, unless the industry and/or the firm provided case assistance, data, et cetera, to the workers:

A denial of the majority of cases brought, and a failure of the program to provide jobs even for those who perservered and won their claim for adjustment assistance.

In 1963, the first adjustment assistance case was brought by electronics workers in a Ford-Philco plant in Sandusky, Ohio. It was denied. The union was also denied an opportunity to learn the detailed reasoning by the company and Tariff Commission that caused the turndown. The workers never knew—only the company and the Commission were in possession of the facts, and they would not release them.

But this first case is also interesting because it is a clear example of what has happened to many other groups of stricken workers.

Today, Ford-Philco exports from Taiwan to the United States. The Ford Motor Co., is a member of the Committee for a National Trade Policy. It is a member of the Emergency Committee for American Trade.

These groups explain the "benefits" to the United States of increasing foreign investment, and the need for adjustment assistance.

But as a matter of help to affected electronics workers, the company has been hostile.

Companies with foreign operations often don't want to admit they are costing U.S. workers their jobs.

There have been instances of assistance, of course. For example, workers in a General Instruments subsidiary in Chicopee, Mass., were granted help. In this one case alone, more than 2,000 workers were employed 5 years ago. Today, there are 200 workers in the plant.

To date: 1,274 workers have received one or more checks; 467 have exhausted their benefits of 52 weeks; 46 workers are waiting to receive their first check; 434 workers are ineligible.

As of the end of March, $858,612 was spent in payments.

Recently the local union officer of the International Brotherhood of Electrical Workers wrote to President Nixon: "Mr. President, we are reduced to begging for our jobs." If any have found new jobs they are few. The U.S. Department of Labor has no figures to show employment of those displaced or retrained in this group.

In the glass industry, where the President granted adjustment assistance, 1,500 workers in five different cases have received it, but the union reports that fewer than 50 of these people have been employed since the President acted. In this instance, the glass industry sought protection, and got it. The industry supported workers' adjustment assistance cases and provided information for them.

On the other hand, in the *Mattel Toy* case, the public report is a series of deletions, so that the public cannot possibly know the facts. Over 5,000 former members of the rubber workers' union in the Los Angeles area lost their jobs. Their livelihoods were exported to Mexico, the Far East, and other places. But no information is available to the union or the public as to the facts on which the Tariff Commission based its findings. The workers' petition was denied, and no relief was granted. Los Angeles and America are the losers.

This is the past record—a record of failure, deception, and false promises.

It is a tragic story. But to seek the promise of amends is meaningless.

During the past 10 years, a whole new trading environment has arisen—a world in which most nations of the world have managed national economies, where multinational firms and conglomerates of unknown power and scope have now decided that governments are obsolescent. These giant corporations often do not want to be identified as American firms when they are not appearing before the Congress of the United States.

Robert Stevenson, Ford executive vice president for international operations, has stated:

> It is our goal to be in every single country there is, Iron Curtain countries, Russia, China. We at Ford Motor Company look at a world map without any boundaries.
>
> We don't consider ourselves basically an American company. We are a multinational company. And when we approach a Government that does not like the United States, we always say, "Who do you like? Britain? Germany? We carry a lot of flags. We export from every country."

With this as a background, what is being proposed?

The President's Commission on Trade and Investment has recommended more adjustment assistance, with changes to ease the criteria for receiving adjustment assistance, to provide for one agency to handle the program, and to identify problems before they arise, a kind of early warning system.

These are attractive, unrealistic ideas in a modern trading world, and the multinational firms represented on the Commission should know the unreality. Who is going to give early warning? The company about to skip away to Taiwan?

To suggest that an early warning system would work is a travesty on the reality of today and tomorrow.

As of February 1972, the Commerce Department reported:

> The most comprehensive data now available are from the census of international investment which covers only the year 1966. Data dealing with the effects of international investments on exports, imports, employment and technology transfers are still unavailable.

Thus, here is an administration that does not have before it the realities of today telling us to buy an unreality of tomorrow.

Since no data are available on the impact of corporate licensing, technology, and other transfers on exports and imports, it is unlikely that an early warning system, or even a fair analysis by any Government agency for an adjustment assistance finding could be a meaningful answer to the problem.

In the modern world, a whole new set of employment problems exists. A Los Angeles computer firm reportedly sends electronic signals to Korea, where low-cost labor performs the work on the tapes and flies them back to Los Angeles.

The employment impact is real. The profit to the computer firm is real. But what happens to the U.S. citizen or to the city of Los Angeles? That is the question that is before the Nation in the seventies—not an idea whose time has passed.

For these reasons, the AFL–CIO supports new legislation, the Foreign Trade and Investment Act of 1972—Congressman Burke—H.R. 10914—which can provide both immediate remedies and long-term answers to the inrush of imports, the outflow of capital and technology, and provide the Congress with the kind of help it now seeks in solving one of the major problems in the last third of the 20th century: How can the United States have healthy, productive, fully employed citizens and higher living standards in a modern world of nations?

The Burke-Hartke bill, the AFL–CIO believes, is a positive program for American taxpayers, consumers, and workers. Because of the bill's great importance, I ask the committee's forbearance while I briefly describe its provisions.

Taxes on U.S. corporations' overseas operations are made to more closely relate to tax rules domestically. Tax breaks and incentives to move production, technology, and jobs abroad have been removed.

The bill changes the current law whereby U.S. corporations can defer taxes of foreign earnings. The bill requires that they report foreign income in the year earned, the same way they now report U.S.-earned income.

The bill would also end the current loophole whereby tax payments made by U.S. corporations to foreign governments are allowed a tax credit. The bill would reduce the foreign tax credit to a deduction. Thus, whatever taxes are paid abroad would be a deduction and not a credit in the corporation's U.S. return. The same reduction in tax advantage to a corporation would apply where companies receive royalties on U.S. patents sent abroad.

Current tax provisions encourage movement of funds and reinvestment abroad. For example, $15 billion was invested or reinvested in 1971 by U.S.-based firms in new plant and equipment outside the United States, and a host of technology transfers took place. Such foreign investments have increased 60 percent faster than U.S. domestic investments in the past decade.

A Foreign Trade and Investment Commission would administer the new program, bringing modern concepts and methods to its operations. Trade-related programs now in the Treasury, Commerce, and Labor Departments would be placed in the Commission.

This Commission would be responsible to the public and to Congress. Under current law, the businessmen, the cities and towns, the groups of working people affected by the vast changes that are overtaking our Nation must go from agency to agency—including the Tariff Commission—to gain attention. Under this law, the responsibility would be in one agency.

Quotas are a key provision in the bill, which establishes a "sliding door" concept to imports. The sliding door would replace the wide open door that is currently periling United States as a manufacturing nation, and would be a healthy alternative to the closed door of the early thirties.

Production of U.S. goods would be insured by the guarantee of a share of the U.S. market. Thus, U.S.-based manufacturers could recover from the heavy import onslaughts of recent years. The bill provides that all products that come into the United States would be awarded an initial import quota of the average number of units that entered the United States during 1965–69. For each year thereafter, each foreign import would be guaranteed an annual percentage of our production equal to the percentage of the 1965–69 quota. This is a guarantee no other nation gives to the United States. In succeeding years, the number of imported units would rise or fall in relation to the number of units produced in the United States.

There are exceptions. Goods that are not produced in the United States would be excused from quotas, because a flat shutoff would disrupt U.S. production or markets. Also excused would be those goods already under legislated quotas and those products under governmental voluntary agreements.

There is, therefore, flexibility in the bill to avoid disruption of U.S. markets and production during the implementing of the program. However, the concept of the bill is to save threatened industries, and to eventually enable hard-hit producers to regain domestic production and reemploy workers idled by the imports.

The bill would speed antidumping complaints and provide relief to affected industries and workers. Under current law, by the time a dumping determination is made that goods are being deliberately sold at lower than fair value to capture a market, a U.S. industry can be forced out of business, and its workers made jobless.

The current law's countervailing duty provisions would be modernized to provide greater enforcement. This provision strikes at the unfair advantage given imported items which receive a subsidy or other export assistance from a government.

The escape clause would be modernized to make injury easier to determine and relief easier to apply. Again, the purpose is to save industries and jobs through speedy action and more liberal determinations.

The outflow of capital from the United States would be regulated. Currently, billions in U.S. dollars, equipment, technology, and patents—and jobs—are being exported without regard to the harm done to U.S. citizens and communities. The President would have clear authority to act in the interests of the U.S. economy and employment.

Foreign grants and foreign loan programs would be required to show their effect on U.S. production and jobs. The bill sets up procedures for the collection of more pertinent data on foreign trade and labeling procedures. Goods containing foreign-made components would be identified on the product and in advertisements.

Consumers have a stake in this bill, because U.S. consumers need U.S. jobs at U.S. wages and salaries to pay U.S. prices. Increasingly,

U.S. brand name products, produced wholly or partially abroad, are sold in the U.S. market and at U.S. prices, with U.S. brand names.

For example, the Dodge Colt is produced by Chrysler-Mitsubishi in Japan and is sold in the United States. It is listed as an American car in many reports, because it bears an American brand name—and it is sold at an American price. But the production, jobs, and other costs and benefits are largely not American.

The proposed law provides for (1) fair labeling of the country of origin of parts and whole products, and (2) assurance that Federal consumer protection laws apply to imported products.

American consumers want to buy imported products from time to time, and this bill will not stop such products from entering the country. But American consumers want to know where the imported unit and its parts were made, and not be fooled by an American brand name on the front. Americans want to know that the American price they pay is related to the cost of the product—and not a windfall for importers and retailers.

The Bureau of Labor Statistics, which has been providing only vague estimates of job impacts from foreign operations of firms, and the U.S. Government would be directed to collect data on wages, working condititons, and employment abroad.

The bill repeals tariff items 807 and 806.30 of the tariff law—provisions under which entire U.S. industries, such as certain types of consumer electronics, have been moved out of the United States by locating assembly operations in Mexico, Taiwan, Hong Kong, and elsewhere to utilize cheap labor and to abide by other advantages in the foreign country. The product from these operations often cannot be sold in the country where it is assembled, but must be exported, usually back to the United States.

These changes have found the U.S. worker virtually helpless in protecting his job and his standard of living. While the United States has played by the old theories and the old slogans, many U.S. markets have been virtually overrun by imports, costing U.S. jobs.

Equally destructive, U.S. multinational corporations, seeking to maximize profits, have moved production of huge parts of U.S. industry abroad. Typewriters, office machines, sewing machines, radios, black and white TV, quality glassware, shoes, stainless steel, dinnerware, bicycles, and scores of other products now depend on imports for sale or manufacture in the United States, and tens of thousands of other products are similarly threatened.

The Burke-Hartke bill provides new remedies to help solve these problems.

This capsulized explanation of the bill shows the complexity and the interrelationships of the tax, trade, and investment policies of our Nation. We cannot approach them separately and expect to solve the problems that are manifested by deficits and joblessness.

In summary, we in America have to make some decisions. We have to decide if America is going to continue as a diversified manufacturing nation with a high standard of living and have service jobs relate to manufacturing.

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The trend is now to put new technology into production abroad—cassettes and home TV recorders, for example—without ever tooling up in this country. If unchecked, these outflows of jobs and technology will have disastrous results that no "service" economy can overcome.

The United States is in trouble. Taxpayers are fed up. The AFL–CIO is against the use of tax money to support private greed at public expense.

The AFL–CIO supports adjustment assistance as one tiny, integral part of a total program of trade and investment. Those workers who need help should receive it, but the AFL–CIO recognizes the realities of the 1970's. America needs realistic action for the present and future, not a return to the ideas of the past.

(The following materials were provided for the record:)

[From Television Digest, Vol. 10, No. 28]

ATTACHMENT A

U.S. GUIDE TO TAIWAN

(An alphabetical directory of some of larger U.S. consumer electronics end-product ventures in Taiwan)

Admiral.—Admiral Overseas Corp., subsidiary of Admiral International Enterprises (AIE), has just completed 3rd expansion, bringing plant in suburban Chung-Ho to 187,000 sq. ft., with 1,300 employes. Admiral started Taiwan production in Aug. 1967 with 13 employes on amplifier line, started 9V" TV chassis in Oct. 1967, complete 9V" set in March 1968. It now turns out 9V" sets at 550 units daily, is planning to step up to 1,200.

Admiral is phasing into production of complete 16V" b&w sets and 18V" & 19V" chassis. Admiral was first—and still is only—U.S. manufacturer in Taiwan to make color chassis & sets. It has been making chassis for 12V", 14V" & 16V" color sets & printed boards for larger color sets. During our visit we saw first pre-production run of complete 14V" color sets. Some private-label sets, including those for Eaton chain in Canada, and semi-privates such as Canadian Admiral & special K-Mart Admiral sets are made in plant. AIE Pres. Vincent Barreca told us that Montgomery Ward (Cortron) & Emerson business "should help us down the road a piece." Admiral is changing over its plant to stateside-type conveyor operation, is understood to be negotiating to buy 50,000 color tubes from Hitachi. Russell P. Smith is pres. of Admiral Overseas.

Company has formed new Taiwan firm, Ensign Trading Co. Ltd., to export end products & components to licensees & other manufacturers throughout world.

Admiral sets are on local market in Taiwan—but not made by Admiral, which, as firm given special tax abatement & other incentives, is licensed to produce for export only. China Electronics Corp. is domestic licensee for Taiwan market, makes Admiral air conditioners & TV for local sale.

Ampex.—Plant in Kwei-Shan now produces memory planes & other components, may soon add video & perhaps audio recorders.

Arvin.—Now putting finishing touches on showcase plant in Nei-Li between Bendix & RCA sites. With 72,000 sq. ft. of floor space, plant will supplement Arvin's Hong Kong facility, make lower-priced products which no longer can be produced economically in Hong Kong. First products will be radios, with tape recorders to come later.

Bendix.—Started last Aug. to produce auto radios & subassemblies, first U.S. car radio manufacturer to go overseas.

Channel Master.—Parent Avnet is sole owner of Trans World Electronics in Taiwan's Kaohsiung Export Processing Zone, opened about 3 years ago. The 36,000-sq.-ft. 253-employe facility currently makes 3 radio models plus electronic antenna accessories (boosters, amplifiers, etc.), will increase radio output to 7 models. John Lane, ex-Channel Master consumer services gen. mgr., heads operation.

Motorola.—Currently occupying just-completed plant in Tu-Chen, near Taipei, planning to ship first sets to U.S. early in Sept. Plant has 117,600-sq.-ft. area plus 4,000-sq.-ft. cafeteria, with potential for 85,000-sq.-ft. expansion. Motorola plans to start production with FM–AM table radios, then move to monochrome TV, after-market auto radios & tape cartridge players. When in full production, company plans to make 7V", 9V", 12V" & 14V" b&w TV sets, with sufficient capacity to make as many as 300,000 per year, has no plans for color production. John C. (Jack) Riley is gen. mgr. of Motorola Taiwan Electronics Corp.

Philco-Ford.—First major consumer electronics manufacturer to build in Taiwan (1966), Philco's large (145,000 sq. ft., 2,200 employes) operation at Tam-Shui near Taipei differs from all other big U.S. facilities in that it makes extremely wide variety of products. Among them: Personal & large portables, both FM & AM, clock & table radios, private-label mini-phones (J. C. Penney), component stereo receiver, color TV printed boards, large-screen b&w chassis, complete small-screen b&w sets. At one time, Philco produced more than 60 radio models in Taiwan.

Philco originally had planned to produce only limited number of lines, then found that shorter runs of many different items could be extremely profitable. Company apparently is limited in items it can produce overseas by its promise to union that if would make nothing overseas which it now makes in U.S.

In monochrome TV, Philco is currently making single model, turning out 500 sets daily, but is set up to make 8V", 12V" & 16V". Philco also has semiconductor plant in Kaohsiung Export Zone employing about 1,200.

RCA.—Huge new plant—at 445,000 sq. ft. the 2nd biggest U.S. facility in Taiwan (General Instrument is largest)—combines RCA's component & consumer product operations. First products built (before enlargement) were memory planes, followed by home instrument components. Plant now has about 1,300 employes, eventually will have no more than 3,000.

RCA's major Taiwan product is b&w TV; it's making 12V" set, is expected to move next into 16V", then 9V". Eventually it may make radios, recorders, and possibly color TV, but there are no definite plans. Facility ships not only to U.S. but to RCA's Hong Kong sales operation for worldwide market.

RCA operation is credited with tipping scales, bringing in major component & support industries. Located in Tao-Yuan area with most other U.S. electronics facilities, RCA faced Labor recruitment problems, is understood to be planning to erect dormitories for female workers—practice which is common among Chinese & Japanese firms but frowned upon by most U.S.-owned companies there, although General Instrument does use govt.-built dorms.

Zenith.—Latest major to move to Taiwan, Zenith has property in same area as RCA, will build 200,000-sq.-ft. plant designed to employ some 2,000. Total cost will be $7.5 million. Its only firm product plan is manufacture of small-screen b&w sets for all Zenith markets—principally U.S. & Canada. Production is scheduled to begin in June 1971. Company has no color production specifically in view, but like other U.S. TV firms in Taiwan, is watching Admiral's color operation closely. Jean H. Bradley, ex-Philco & Magnavox, is Zenith International vp in charge of Taiwan operation.

Japanese are broadening participation in South American consumer electronics markets. Latest to set up joint-venture manufacturing operations are Matsushita in Panama, Sharp in Columbia.

Japan's May Exports

Japanese were just about able to hold their own in May consumer electronics exports to U.S., compared with year ago, according to Finance Ministry. Over-all TV exports gained just 6% (Vol. 10:26 p9), while other high-volume items presented mixed picture.

Transistor radio exports just squeezed past million mark, 13.7% short of May 1969 level; battery portables of 436,422 were off 32.6%, AC-powered units up 10% to 570,015. Solid-state tape recorder shipments were up 1.2% to 441,357, but only cassette machines (up 17.2%) enjoyed increase; auto tape players were up 4.8% Continuing as leading gainer was radio-recorder-&-other-combination category, up 110%. Following are Japan-to-U.S. consumer electronics exports for May & first 5 months, with year-earlier totals for comparison:

JAPANESE EXPORTS TO UNITED STATES

	May 1970		May 1969		January-May 1970		January-May 1969	
	Units	Value	Units	Value	Units	Value	Units	Value
Total TV	295,449	$23,330,225	268,493	$22,462,480	1,109,414	$87,269,781	1,033,627	$85,400,939
Color	85,336	13,209,208	76,500	12,486,275	303,127	47,681,428	310,724	50,102,681
Black and white	209,113	10,082,017	198,690	9,841,697	799,167	39,330,336	703,578	34,558,214
Black and white chassis and kits	1,000	39,000	3,303	134,508	7,120	258,017	19,325	740,044
Radio-phono	95,941	2,671,611	120,574	2,603,481	2,442,251	10,778,314	580,984	12,343,781
Radio recorders and other combination	235,649	9,986,814	112,252	4,154,692	942,062	40,023,836	419,957	15,423,608
Auto radio	85,921	1,461,556	72,492	958,972	370,299	5,990,322	357,550	4,892,994
Transistor radio, portable with FM	278,064	4,346,331	647,978	7,905,556	1,201,750	20,368,717	2,771,276	33,965,303
Transistor radio, portable, other [1]	158,358	1,038,308			746,830	6,031,781		
Transistor radio, home with FM	411,616	9,711,206	518,420	7,460,675	1,693,485	43,633,639	2,154,018	32,668,336
Transistor radio, home, other [1]	158,403	1,164,303			620,343	4,712,706		
Transistor radio, chassis and kit	56,171	821,806	138,596	1,902,914	370,892	5,730,300	568,014	8,069,289
Transceivers, under 100 megawatts	152,978	596,758	141,273	566,931	463,091	1,758,381	523,332	2,038,450
Transceivers, other	31,386	774,017	15,180	504,128	187,614	3,943,247	103,795	3,333,492
Phonographs	19,193	322,075	16,740	192,908	208,766	2,895,117	94,454	875,061
Tube recorders	516	48,761	1,010	125,417	11,951	289,394	4,314	305,461
Transistor recorders, rim drive	48,472	284,528	59,396	421,753	159,168	1,212,844	288,596	1,925,197
Transistor recorders, cassette	351,154	7,275,775	299,687	5,624,008	1,631,300	32,735,494	1,123,696	22,980,608
Transistor recorders, capstan	41,731	1,809,617	87,468	3,640,594	174,874	7,890,403	409,712	19,224,703
Tape players, auto	177,334	3,928,261	169,156	3,790,464	929,232	20,473,958	985,085	22,106,411

[1] Included with item directly above in 1969.

TV market entry is being made by Lantz International. First set is Japan-made 4V'' battery b&w TV–FM–AM radio combination, retailing in N.Y. at $129.99. Founded last year by former Admiral & Philco vp Carl Lantz, and now a subsidiary of Allis-Chalmers, firm had previously confined activities to electrical appliances.

Tuner-comparability rule clarification will be sought by EIA at meeting with FCC officials this week. One area of concern: More precise definition of "model," which comparability order defined as all of any type of TV set combining same basic chassis with same tube size (Vol. 10:27 p10).

Stock in Corning, GE, 3M & RCA, along with shares of 42 other U.S. firms, will be more easily traded in Europe later this year when Morgan Guaranty Trust introduces International Depositary Receipts. IDRs will represent one or more shares in U.S. firms, and are more simply traded than actual certificates. Morgan was first to issue ADRs, now principal means by which U.S. investors own shares in foreign firms.

GE profit rebound in 2nd quarter (see financial table) didn't reflect consumer electronics sales, which Chmn. Fred J. Borch said showed decline for period.

SUMMARY OF TRADE ADJUSTMENT ASSISTANCE ACTIVITY, OCTOBER 1962 TO FEB. 29, 1972

	Number of cases	Number of workers
A. Total adjustment assistance certifications issued by the Department of Labor	56	23,519
Total number of workers denied certification as a result of Department of Labor and Tariff Commission findings:		
(a) Tariff Commission	79	27,602
(b) Department of Labor	1	30
Total	80	27,632
B. Potential worker cases:		
(a) Department of Labor (assisting in preparation of petitions to be filed with TC)		
(b) Tariff Commission (at the TC but not yet accepted)		
C. Department of Labor TAA cases arising from:		
1. Presidential authorization of workers in an industry to apply:		
(a) Denials	1	30
(b) Affirmative	12	3,080
(c) Petitions in process		
2. Tariff Commission decisions on worker petitions for adjustment assistance:		
1. Affirmative findings	16	6,990
2. Evenly divided [1]	28	13,455
3. In process	0	0
D. Tariff Commission activity:		
1. Industry (escape clause):		
(a) Denials	16	
(b) Affirmative	4	
(c) Evenly divided [2]	3	
(d) In process	1	
2. Workers adjustment assistance cases:		
(a) Denials	79	27,602
(b) Affirmative	16	6,990
(c) Evenly divided	28	13,455
(d) In process	1	210
3. Firm cases:		
(a) Denials	15	
(b) Affirmative	6	
(c) Evenly divided	6	
(d) In process	12	

[1] And subsequent Presidential decision accepting affirmative views.
[2] 1 of the 3 awaiting Presidential action.

THE PAST POSITION OF LABOR ON ADJUSTMENT ASSISTANCE

Mr. CULVER. Thank you very much, Mr. Biemiller.

Mr. Biemiller, in January of 1969, Mr. William Roth submitted a report to the outgoing Johnson administration on "Future United States Trade Policy." Chapter V of this report recommended substantial amendments to our trade assistance program, including new negotiating initiatives to develop international agreements on fair labor standards and their enforcement.

In a footnote to this chapter, Mr. George Meany and Mr. I. W. Abel—who served as members of Mr. Roth's public advisory committee—endorsed these conclusions and indicated that they thought trade adjustment assistance could be made to work. The exact language of their comment was, in relevant part, and I quote, that:

> The United States Government liberal trade policy should include an arsenal of measures that can be used to cushion adverse impacts * * *. Effective trade adjustment assistance machinery is one essential part of such an arsenal of measures * * *.

Now, that was said in 1969. But the position taken by the AFL–CIO today, and I believe the position you took in 1970, seems to dismiss adjustment assistance, even though none of the Roth recommendations have been given a test.

How do you reconcile these positions?

Mr. BIEMILLER. Mr. Goldfinger.

STATEMENT OF NATHANIEL GOLDFINGER, RESEARCH DIRECTOR, AFL–CIO

Mr. GOLDFINGER. Sir, we are not dismissing adjustment assistance, and the position taken in that footnote comment is essentially the same as the position taken by Mr. Biemiller this morning, and that is that adjustment assistance is one part, and as Mr. Biemiller just said in the statement read to you this morning, one tiny part of an essential overall trade program.

The thing that disturbs us and bothers us is that adjustment assistance now, in 1972, is being proposed by some people, and many of these people have a vested interest representing multinational corporations and big importers. It is being presented by some people as the key part, or as a major part, of a trade program, and we say it is not. We say that there is a major problem here, that we ran a trade deficit, an officially reported trade deficit for the first time last year since 1893, and if you look at the details, you will find that we ran actual trade deficits for several years in the 1960's, so that there is a serious problem, there is a serious employment problem, and we have to get to the serious problems, and not concentrate on adjustment assistance alone. Adjustment assistance is one small part.

Mr. CULVER. Would you agree with Mr. Abel and Mr. Meany's statement that it is one essential part of national dimension?

Mr. GOLDFINGER. It is a small part of it.

Mr. CULVER. But to a degree, the emphasis is clearly different in the Roth report and in the thrust of the statement made today by Mr. Biemiller.

It is certainly significant to me that when you talk about adjustment assistance, it certainly is a different characteristic than suggesting it is one tiny integral part of a program, but I wanted to get a clarification for the record, and I think you attempted to do that.

Mr. GOLDFINGER. I also suggest that since you are looking at comments by trade union leaders on Government commission reports that you not only look at the brief footnote comments of Mr. Abel and Mr. Meany to the Roth committee report, but I would suggest, sir, that

you look at the more detailed comment, minority dissent statement of Mr. Abel and Mr. Floyd Smith, president of the Machinists, to the more recent report of the President's Commission on Foreign Trade and Investment.

CAN ECONOMIC CONVERSION WORK?

Mr. CULVER. The AFL–CIO's 1971 trade pamphlet, Mr. Biemiller, entitled "Needed: A Constructive Foreign Trade Policy" dismisses the adjustment concept as a "flimflam," and a "hoax."

This pamphlet was prepared by Mr. Stanley Ruttenberg, who—when he was in the Government in the early 1960's, as I recall—presided over a massive program that succeeded in finding jobs for Studebaker employees when that company went out of business.

Now, without asking you to speak for Mr. Ruttenberg, does this not suggest that what we might call conversion assistance can work if it is given a high enough priority?

Mr. BIEMILLER. Mr. Goldfinger.

Mr. GOLDFINGER. Sir, adjustment assistance can work, and Mr. Biemiller's statement said so. It can work in the kind of example you gave, of one company, in one place, under one circumstance.

By the way, when Mr. Ruttenberg was the Assistant to Secretary Wirtz, and then the Assistant Secretary of Labor, there was a concentrated effort by the entire Department of Labor and of the government officials of the State of Indiana, to provide concentrated assistance to South Bend, and to the workers who were laid off, and it did not solve all the problems. It did provide assistance.

However, what we are saying is that the circumstances now, in 1972, are considerably different, with scores of thousands of workers who are losing their jobs. It is not one community affected, it is hundreds of communities affected. It is entire industries, it is branches of industries. It is the shoe industry in the New England States, it is the electronics industry in the Midwest, Ohio, Pennsylvania, Indiana, as well as New England. It is whole slews of industries, and whole regions, and whole sections of the country, and what is happening here is that jobs are being exported.

The facts are clear. They are on the record. You read the newspaper reports about plant shutdowns that are occurring weekly. There are reports in the various trade journals of what is happening.

SERVICE VERSUS PRODUCTION JOBS

Mr. CULVER. A basic objection, Mr. Biemiller, articulated in the Ruttenberg report, is that adjustment assistance will move workers out of production jobs into service jobs.

It does seem to be true that the service sector of our economy is the one that is expanding most rapidly in terms of job opportunities, but really, I wonder if you would elaborate for the benefit of the committee the problems you see in that development.

We assume that machines in a highly technological society of rapid change characterize the international economy today. We also assume that machines can take over many assembly line duties.

If it is also true that many of our workers would find greater job

satisfaction in service opportunities than in what are often routine and somewhat boring production jobs, why would this kind of employment evolution not be in the interest of both our labor force and national economy?

Mr. GOLDFINGER. In the first place, sir, we do not have Mr. Ruttenberg's report here. Mr. Ruttenberg's report was done for the Industrial Union Department of the AFL–CIO, and not for the federation as such.

But I would be glad to respond to the general thrust of your question.

In the first place, most service jobs in the United States are low-wage jobs, they are not high-wage jobs. There is an utter mistaken impression abroad that service jobs are jobs of psychiatrists and doctors, but they are not.

Not all of the displaced workers can become Members of the Congress of the United States, or members of the staff of the Brookings Institution, or faculty members on university campuses.

There is a need, in our estimation, for a diversified American economy, an American economy that has manufacturing facilities, including automated facilities, as well as service occupations, and so forth.

The service occupations by and large are related to manufacturing occupations. A good deal of servicing occupations in the United States, such as the various repair services, are related to production.

Furthermore, the extent to which research and development involves a service occupation—and by and large, that is not for displaced workers, this is for scientists and technicians—but that, too, is related to production.

If we continue to export our productive facilities, our manufacturing facilities, over a period of time, we will be, and we are now beginning to export our R. & D. facilities as well. IBM already has worldwide R. & D. facilities, and other large firms do.

Mr. CULVER. I wonder if you would care to comment on the suggestion that one sometimes sees, to the effect that the AFL–CIO has somewhat of a conflict of interest in this area, in that effective assistance programs might move some elements of our labor force into nonunion jobs, and thus reduce the membership rolls of the AFL–CIO.

It may be more fair, I think, to give you an opportunity to comment on this suggestion, rather than leaving it an uncomfortable and unspoken part of the debate.

Mr. GOLDFINGER. I think that position is ridiculous, sir. The AFL–CIO——

Mr. CULVER. You have heard it raised?

Mr. GOLDFINGER. And I think that one of the people who has made that kind of comment will be appearing before the committee later, and you can ask him. He poses as an expert on the trade union movement. I never was aware of the fact that he was an expert on the labor force, on manpower, or the trade union movement.

But let's get to the issue. And that is that the trade union movement has been organizing——

Mr. CULVER. I might say the Chair very much appreciates dealing with the issues rather than with personality.

Mr. GOLDFINGER. All right. I will deal with the issues.

The AFL–CIO affiliated unions have been effectively organizing various service trades and various service occupations, and we are not afraid of losing members in that sense. That is not the issue.

I mean the AFL–CIO, for example, right now is hard at work, as you Members of the House are aware, in support of an increase in the minimum wage, and the increase in the minimum wage is not going to benefit directly many AFL–CIO members. We are doing this in terms of our broad social and economic policy.

THE COST OF ADJUSTMENT ASSISTANCE

Mr. CULVER. In the Ruttenberg report, there is an estimate that effective implementation of adjustment assistance would cost on the order of a half billion dollars a year.

Now, of course, it is difficult to resolve the statistical assumptions and counterassumptions that underlie any estimates of cost.

Mr. BIEMILLER. That could very well be a conservative estimate, the way unemployment is growing.

Mr. CULVER. If we accept it for purposes of discussion, this would mean expenditures of one-fourth of 1 percent of our Federal budget.

Yesterday, we had lunch with the Deputy Minister of the Interior in Sweden, and in that country they now spend 5 percent of their budget on manpower retraining and structural and regional assistance, so that is one point of comparison.

Another is that we are——

Mr. BIEMILLER. Wait a minute. That is the——

Mr. CULVER. Would you please wait a minute until I finish the question, and then you will have ample opportunity to answer it.

Mr. BIEMILLER. All right.

Mr. CULVER. Another is that we are now spending in this country around $10 to $15 billion a year, according to some estimates, for the current level of protectionism, and this would surely go up very substantially, in my judgment, if something like the Hartke-Burke bill were enacted.

Now, in this context, does not even a half billion dollars seem a little less frightening and perhaps a worthwhile price to pay in terms of our overall economy?

Mr. BIEMILLER. Actually, as I said in the first place, that is probably a very conservative estimate.

Secondly, the estimate that you get from Sweden, the information from Sweden is that their entire retraining program, which is the most extensive program of any country in the world, they have always done a more thorough job than any other country has.

Now, actually what you run into, though, with any manpower retraining program, in this country, Sweden, or any place else, is that the programs will fail unless there is a job at the end of them.

This has been the great failure of all American retraining programs, and has been the absolute failure of adjustment assistance in this country.

There have been no jobs that have come out of the adjustment assistance that has so far been provided, and there is no likelihood of any jobs coming out of the program if it is more widespread than it is now.

We do not agree at all with your estimate of Burke-Hartke. We think it is the one way that you can straighten out the situation, by stopping the outflow of American capital, by reinvigorating the American economy, and putting people back to work, and that is what we are out to do, is to find jobs for people.

I think that as you watch this current presidential campaign unfolding, you will see more and more of this is going to be the great issue in this campaign, is finding jobs for unemployed American workers.

CANDIDATES FOR RETRAINING

Mr. CULVER. Again, the Ruttenberg report argues that many workers are not candidates for retraining, citing "women or minorities or older workers."

Do we really want to dismiss all of these people from consideration?

I am sure the women would not be happy to hear you say this. In Sweden, we are told that 45 percent of those receiving retraining are women.

As for the minorities, with all the difficulties they have in the job market, should they not receive priority consideration for job training?

Mr. BIEMILLER. In the first place, the Ruttenberg report is not an AFL–CIO report. As we said, it is from the Industrial Union Department of the AFL–CIO. It is not an AFL–CIO document.

Mr. CULVER. Then you are really talking about a very understandable and proper criticism of the total inadequacy, both in terms of administrative structure as well as the substantive relief, of the 10 years under the Trade Expansion Act's adjustment assistance provisions.

Mr. BIEMILLER. Correct.

WHAT PROGRAM IS BEST IN THE LONG TERM?

Mr. CULVER. But properly funded, with the proper rationalization of harmonization for total effective manpower retraining programs, you would not dismiss the possibility that this presents a better alternative in the long-term economic and political interests of the country?

Mr. GOLDFINGER. As only one very small part of an overall trade and investment program. It is not a solution to the problem.

We face a massive problem here in terms of foreign trade and foreign investment, and unless and until the Government of the United States faces up to the great loss of jobs in connection with the export of American technology, the export of American capital, and the operations of managed national economies abroad, which subsidize their exports and their setup barriers to imports—unless we face up to these realities, we are just playing around.

Sure, as Mr. Biemiller's statement says, workers need assistance, who were laid off, and they should receive assistance, but that is not the solution to the problem. Down the road, what is needed, even in those cases, is jobs.

By the way, sir, the U.S. Department of Labor has very little, if any, information, and they do not even study the problem of what has happened to the workers who have been laid off, what has happened

to the workers who have received adjustment assistance. You know, even to those few workers who have received adjustment assistance, where are they?

We represent people, we represent workers, and we are interested in workers, rather than merely in statistics.

Mr. CULVER. Mr. du Pont.

IMMIGRATION OF FOREIGN LABOR

Mr. DU PONT. Thank you, Mr. Chairman.

Mr. Biemiller, one of the things that would seem to me, from your point of view, that ought to be done to the Burke-Hartke bill is the addition of immigration limitations, because one of the problems that we have is immigrants coming from abroad taking jobs.

Mr. BIEMILLER. There is almost no problem today. No one may come into this country to take a job unless the job is on the scarcity list. The present immigration law has a very tight control on the labor market.

Mr. DU PONT. And you would like to keep it that way?

Mr. BIEMILLER. There may be illegal Mexicans running around the country, but we are trying to pursue them and get rid of them, and illegals of other countries, but the Mexicans happen to be the biggest number.

As far as the immigration policy is concerned, there has to be certification by the Labor Department of a job vacancy for people to come into this country and take a job.

Mr. DU PONT. And you would like to see that very tight policy continued?

Mr. BIEMILLER. Oh, absolutely.

Mr. DU PONT. You would not want foreign workers coming in here and taking jobs?

Mr. BIEMILLER. No, sir.

THE EFFECT OF QUOTAS ON IMPORT RELATED JOBS

Mr. DU PONT. Now, Mr. Biemiller, second, I wonder if you can tell me what the level of Volkswagen importation into the United States was in 1965 to 1969?

The reason for my question is if we enacted the Burke-Hartke bill, I wonder what the immediate cutback in Volkswagen sales in the United States would be, how many jobs that would mean to Detroit, and what that would do for the automobile industry.

Mr. GOLDFINGER. I don't have those figures, sir. We will supply them to you.

Mr. DU PONT. If you will supply them, find out, under the Burke-Hartke bill, what the Volkswagen base level would be, what Volkswagen sales are today, so that we could see how many less cars would immediately be sold that presumably could be picked up by Detroit. And also, if you would, find out for me how many American jobs would be lost in the Volkswagen operations in this country as a result of that cutback.

Mr. GOLDFINGER. We would be glad to look into that and try to provide you whatever information we can.

(The information requested follows:)

AMERICAN FEDERATION OF LABOR
AND CONGRESS OF INDUSTRIAL ORGANIZATIONS,
Washington, D.C., June 14, 1972.

HON. PIERRE S. DU PONT,
Longworth Building,
Washington, D.C.

DEAR CONGRESSMAN DU PONT: In response to your question during the trade adjustment and assistance hearings on April 25, we have compiled a response. At that time you asked: What would be the base-level of imports of Volkswagens under the Burke-Hartke bill, and what would be the impact on American jobs on Volkswagen operations in this country as the result of a cut-back?

The base-level for import quotas would be applied to auto imports from Germany, not to the specific products of Volkswagen, alone. Average imports in the base years 1965–69 would be the first considerations for establishing the initial quota, for German automobiles, not just Volkswagen automobiles. The attached table shows the level of imports from Germany from 1965 until 1971, as well as Volkswagen sales within the United States, as reported by the U.S. Department of Commerce and the Volkswagen of America offices in Washington. The base for German auto imports would be 545,200.

Actual imports of German cars or Volkswagens would not be determined by the base-period, alone, for two reasons. First, the Burke-Hartke bill provides that the Foreign Trade and Investment Commission could adjust the base if U.S. markets are disrupted. Second, imports may decline for many reasons, not just because of quotas. For example, Volkswagen sales in the U.S., declined by almost 50,000 between 1970 and 1971, without a quota. Reports attribute this decline of U.S. sales to many causes, including safety, changes in consumer style preferences, competition from U.S. compacts and Japanese imports, as well as changes in currency values of the American dollar and the German mark.

As a result, it is not possible to predict, with precision, the extent of the actual reduction of German auto imports, under the terms of the Burke-Hartke bill. Moreover, it is much less possible to predict the degree of the actual cut in the number of Volkswagen imports, under a Burke-Hartke quota, since that quota would apply to German auto imports, generally, rather than to Volkswagens, specifically. The following table indicates that there were 444,200 average yearly Volkswagen sales in the U.S., in 1965–69, compared with sales of 523,000 in 1971, but these figures do not necessarily represent anything like a forecast of the impact of a Burke-Hartke quota on Volkswagen imports.

Volkswagen had 45,687 employees in 1970–71, according to Volkswagen of America's office in Washington. There is no breakdown of their job classifications, but most of the employees are service personnel who would be needed to maintain sales and service. Volkswagen has a production plant in Texas for air conditioning. These jobs would be maintained, for the most part, because Volkswagens would be sold and serviced and provided with air conditioning equipment, after passage of the Burke-Hartke bill.

Year	Volkswagen retail sales in United States	U.S. Auto imports from Germany
1965	319,000	377,000
1966	377,000	527,000
1967	409,000	472,000
1968	565,000	708,000
1969	551,000	642,000
1970	570,000	675,000
1971	[1] 523,000	[1] 773,048

[1] Estimates.

Source: Volkswagen of America and U.S. Department of Commerce.

I hope that the above information proves to be satisfactory.

Sincerely,

ANDREW J. BIEMILLER,
Director, Department of Legislation.

Mr. GOLDFINGER. In connection with your reference to Volkswagen, the New York Times of Sunday, April 2, had the following quote from Mr. Stewart Perkins, the president of Volkswagen of America. Mr. Perkins said: "The Americans exported their industry, where other countries exported their products."

This is a key part of the problem that we have been trying to get to put forward to this committee, and to other committees of the Congress, and to the public.

OIL IMPORTS

Mr. DU PONT. Well, if you could supply that data, I think it would be interesting to see how many jobs would be lost versus how many cars would be gained for Detroit.

Now I would like to turn to a slightly tangential area, and that is oil imports, and I recognize this is not within the Burke-Hartke bill because it is regulated elsewhere.

What is your feeling on the existing oil import quota that keeps a certain amount of foreign oil coming in, and a certain amount staying out of the United States?

Mr. GOLDFINGER. I think the idea of some kind of limitation is essential. Now, whether this is the best method or not, I am not sure. I am not an expert on oil as such. But there are problems here that we have to face up to.

We are an oil-producing nation, but we do not produce enough oil for ourselves.

Secondly, the issue was complicated by the existence of American independent oil producers on the one hand, and huge U.S. space multinational corporations with oil facilities and tanker fleets all around the world.

Mr. DU PONT. Well, of course, the oil import quota means that we are protecting the jobs in the American oil industry which otherwise might disappear if foreign oil imports increased. At the same time, the oil import quota means the American consumer is paying a higher price for oil, so that your position would be that the higher price paid by the consumer is worth the jobs in the oil industry?

Mr. GOLDFINGER. Well, I am not sure that the existing tradeoff is precisely a good one, and I would not argue that. I would have to look at the data in detail.

But I think the general proposition I would go for; yes.

Mr. DU PONT. Thank you.

Mr. BIEMILLER. May I just make a very interesting comment there?

I agree with the basic things that Mr. Goldfinger has said. We don't, I think, have to relate this whole matter to the energy shortages that our country is up against, but it is worth noting that during the period between 1967 and October 1971, the price of fuel oil, which is the major problem that gets involved here, went up 16.4 percent, whereas the overall consumer price rise was 22.6 percent, so that the quotas don't necessarily automatically show a higher price on oil. In fact, we have a very good analysis here——

Mr. DU PONT. I think it is very clear, Mr. Biemiller, that the quotas do result in a higher price.

Mr. BIEMILLER. But actually, price increases have been much greater in nonquota. Imported nonquota articles have gone up much higher than have those items on which there are quotas. Shoes, for example, have gone way up, where there is no quota at all.

Mr. DU PONT. Thank you, Mr. Chairman.

Mr. CULVER. Mr. Zablocki.

THE EFFECT OF THE BURKE-HARTKE BILL ON INTERNATIONAL RELATIONS

Mr. ZABLOCKI. Thank you, Mr. Chairman.

I want to welcome our former colleague, my very good friend, and former Milwaukeean, to this subcommittee.

I certainly want to join with him in his closing remarks, that the United States is in trouble, and the taxpayers are fed up.

There is indeed a loss of confidence in Government and its officials, and, indeed, I might add, in the leaders in this country, in every segment of our leaders, including labor leaders.

In hearing your testimony, Mr. Biemiller, on the Burke-Hartke bill, and I am not an economist, but I am concerned about that proposal, the Burke-Hartke bill. What problems it may cause in our international relations.

I fully understand that you do not advocate we return to the isolationism of the thirties, of closed quotas, but I must submit that the proposal indeed has awakened a latent isolationism which was in the past prevalent in the Midwest. This latent isolationism resurged to such an extent that at the present time my correspondence reveals that not only do they want to see a Burke-Hartke bill, but a great number want the United States to stop foreign assistance, period. As you well know, the very purpose of foreign aid is to export U.S. technology and capital to assist in raising the standard of living and economic conditions of developing countries in many areas of the world.

Not only do the people now want to stop foreign aid, indeed, as Mr. duPont has mentioned, they want to stop all immigration. They look upon these policies as a way to preserve the jobs.

We are an export country, and I must say your testimony, Andy, almost convinced me that the Burke-Hartke bill is a must. You presented your testimony with such conviction that it appears most necessary. However I must ask the question, whether the AFL–CIO as an organization has studied what impact it may create internationally in the future.

Certainly it must be expected that other countries will reciprocate. And I am not very clear what the sliding door effect will be, whether it is sliding as a shower door, or will it be a sliding iron curtain type of door which will slam down, and we will have no control once the United States starts moving in that direction. If the latter is the case, indeed, the United States and the world will return to the era of the thirties.

I am concerned lest we lose our foreign markets. There are countries who buy from us and export in competition with our industries. I fully realize the competition to the electronics industry in the Milwaukee area. Indeed, some of our firms have moved to countries in the Far

East and Southeast Asia, including Taiwan, Japan and Hong Kong. Nevertheless Japan is one of our best customers.

Yes, Japan is one of the United States best customers, as is Canada. If these countries and others take reciprocal action, where does this leave us in the future?

Can we really halt this trend toward isolationism to which the Burke-Hartke bill, I submit, might lead us. Can we really control isolationism? Will we be led into a protectionist attitude in this country which we cannot stop, and in the long run will hurt U.S. interests?

Mr. GOLDFINGER. Sir, we are not isolationists, as you know.

Mr. ZABLOCKI. Well, you sound like it.

Mr. GOLDFINGER. And we have no intention of becoming isolationists. We are internationalists, and we have been all along.

However, we say that it is necessary for the U.S. Government to protect and defend the interests of the American economy and of the American people and of American workers, and this means, in our terms that the U.S. Government should face up to the realities of the world. And one of the realities of the world is that national economies are managed economies.

The chairman referred to the Swedish economy before in terms of their manpower program.

Well, the manpower program is just one part of the management of their economy.

We have to face up to the realities, sir, that the Japanese economy is a highly managed economy for the benefit of the Japanese people as they see it. The Japanese economy, for example, has, as part of their total management, a whole list of barriers against exports from the United States. They have all kinds of hurdles and bars on all kinds of things because they manage their economy and other countries do, too, in varying degrees. That is one part of the problem that we face in the world economy.

Another part of the problem is that U.S. based multinational corporations operate globally all around the world; they juggle their production, they juggle their sales, they juggle their internal bookkeeping so that we don't even know what the facts are in terms of costs and prices, and they export jobs and technology.

This is going on all the time. The case that Mr. Biemiller referred to of the deal between Mitsubishi of Japan and the Chrysler Corp., is just one example. There are loads of others.

The appendix to Mr. Biemiller's statement gives you just some brief detail on the operations of electronics plants in Taiwan and several other countries and that we have to also look out for ourselves and if we do not we then would be in serious danger of moving down the isolationist road.

Mr. ZABLOCKI. Let me assure you I want to look out for the American workingman and therefore, I am more concerned with the outflow of our industries from highly industrialized communities within our country to cheap labor areas and certainly the outflow abroad.

In years past, I recall that the AFL–CIO strongly endorsed the reciprocal trade agreement.

Mr. GOLDFINGER. Yes.

Mr. ZABLOCKI. Strongly endorsed GATT.

Mr. GOLDFINGER. Yes, sir.

Mr. ZABLOCKI. And now you are asking us to reverse ourselves.

How will this affect our international relations? That is my only concern.

Let me also add should the results to our domestic situation be adverse that is my prime concern. The long run if we are going to export, if we intend to have markets, we cannot undo everything we have tried to do in the past.

Has the Reciprocal Trade Agreement Act been a failure?

Mr. GOLDFINGER. No, sir. What we are saying is that there is a time and a place for things and there was a proper time and a proper place and a proper occasion for the reciprocal trade agreements.

Mr. ZABLOCKI. The time has passed? Are you telling us that the time has passed?

Mr. GOLDFINGER. Yes. We are saying that the world has changed, that now in the postwar, since 1945–46, we live in a world of managed national economies which did not exist earlier, certainly not to the extent that they now exist; that we now live in a world of giant multinational corporations, of giant multinational banks; that we have a huge Eurodollar operation with billions of dollars floating around beyond the control of the Federal Reserve.

Mr. ZABLOCKI. These are arguments that were made in the 1930's because at that time, we had giant cartels, we had giant international banks and isolationism free trade was for the answer to meeting the threat from these giant cartels.

Frankly, it appears you are leading us down the path of isolationism. I would hope you would come up with some suggestion that we strengthen the Reciprocal Trade Agreement Act and stop the outflow of American capital. I just don't see how your sliding door on import quotas would be possible because we could get caught in the slam of the door.

Mr. GOLDFINGER. Sir, on that issue, we obviously see it somewhat differently. We think what is needed here is an overall program on foreign trade and investment.

You know, we face this issue every day. We hear from our constituent unions about plants moving, about complaints and about plant shutdowns. This thing is going on all the time, and we follow these stories in the press. We see this stuff. We analyze the reports of the Commerce Department and the Labor Department to the extent that the data is available and we have seen a very sharp sudden shift in the whole trade picture in the United States during the decade of the 1960's.

THE COST OF LABOR AS A COMPETITIVE FACTOR

Mr. ZABLOCKI. Let me assure you my correspondence is exactly the same as you receive from your local unions. I get some—and I don't totally agree with this, Mr. Goldfinger wherein some of the labor union people, not leaders, say that the outflow of plants from our areas and our country is a result of the past policies of exporting technology and giving foreign assistance. Further some say with an increase in minimum wage more of our plants will leave the country for cheaper labor markets.

I hesitate to ask this question, but I think it is a fair question: To what extent has labor out-priced itself in the international market?

Mr. GOLDFINGER. The issue, sir, is not the wage itself; it is the relationship between the wage and technology and productivity.

Now, if you have a similar technology operating in Mexico with a wage of maybe like one-tenth or one-fifth of the wage level in the United States, the labor costs are going to be very much lower and the unit costs are going to be very much lower.

What has been happening here is we have been exporting our technology. The American-owned subsidiaries operating around the world use American technology, American knowhow they have productivity levels that are fairly close to the productivity levels in the United States, they pay much lower wages and they also frequently get tax breaks from the foreign governments and other things of that sort. This is a process that has been going on and it has been going on very rapidly. It is speeded up.

Now, if I may, let me read just a quote from the New York Times story of September 19, 1971, on the electronics industry. This is not an old industry; this is a new industry, a high technology industry, and a sophisticated industry.

The report states:

> The Electronics Industries Association estimates that there has been an absolute loss of 30,000 jobs in radio and TV set manufacturing, or 18.6 percent down from the peak in the years between 1965 through 1970. To this should be added 92,500 jobs in the manufacture of electronic components down 22.6 percent.

Now, the article also went on to report:

> Mr. Reavey, vice president of Motorola, believes that the next step will be a race for big manufacturing facilities in Mexico with low wages, favorable taxes, and reduced shipping costs. He set 1973 as the target date for major expansion there.

RETALIATION BY OTHER COUNTRIES

Mr. ZABLOCKI. This problem is right in my backyard, a couple manufacturers threatening to move their plants from Milwaukee to a foreign country, and I am concerned about it.

I want to assure you that there are portions of the Burke-Hartke proposal that I believe should be fully and carefully considered; for example, the provisions of closing the tax privileges, and the outflow of American capital.

Mr. Chairman, let me ask this final question:

Have you fully considered what retaliatory action other countries may take if we take the step you recommend?

Mr. BIEMILLER. Mr. Denison.

STATEMENT OF RAY DENISON, LEGISLATIVE REPRESENTATIVE, AFL-CIO

Mr. DENISON. Mr. Zablocki, recently a GATT report was issued and dated April 10 in Geneva, and in it it is quoted as saying, talking about the surcharge:

One encouraging development was seen in the failure of the 10 per-

cent import surcharge imposed by Washington to provoke retaliatory action. This was proof the GATT study found that

> Governments have learned since the 1930's to seek conciliation rather than confrontation as a means of surmounting trade problems.

We believe that in this sort of an atmosphere, and this sort of environment, GATT——

Mr. ZABLOCKI. Are you telling us there was no reaction to the 10 percent?

Mr. DENISON. It was a minimal reaction.

Mr. ZABLOCKI. If we had not hurriedly explained that it was temporary and that it would be reconsidered very shortly, I would hate to see what the reaction would be. Indeed some countries had immediately placed import taxes and quotas—the Scandinavian countries, Denmark for example, and they were followed by other important trade countries.

Mr. DENISON. By the same token, it has also been said, and I believe by a high official of the duPont Corp., there is always a trade war going on and the nations are always taking steps to their own advantages in trading with their partners.

One case was announced in the New York Times where now there is a problem of what they call a compensatory tax on edible offals in the common market area.

Mr. ZABLOCKI. As I recall, we have had a temporary problem with Canada—I repeat temporarily—when the 10 percent surcharge was announced. Gentlemen, I would hope that you would present testimony whether or not the foreign aid program, what the results may be should the United States abrograte trade agreement and suggestions on how to correct shortcomings in the Reciprocal Trade Agreement Act. The Burke-Hartke approach although imaginative and a bold step, may cause repercussions for which we will be sorry.

I want to emphasize in closing, again, I am concerned about the unemployment in this country. However, higher unemployment would result as foreign markets will become unavailable for the products we manufacture. Some educational program to Buy American may be helpful. I noted however, the very people that urged and demanded that I vote for the Burke-Hartke bill had a Sony transistor with them or admitted driving a foreign-made car.

Mr. BIEMILLER. You cannot buy an American radio; it is impossible.

Mr. CULVER. The time of the gentleman has expired.

Mr. Whalen.

SHOULD CONGRESS IMPROVE THE TRADE ADJUSTMENT ASSISTANCE PROGRAM

Mr. WHALEN. Thank you, Mr. Chairman.

Gentlemen, I would like to just review for my own edification your views concerning trade adjustment assistance.

As I understand it, you feel that the program on the books has not worked and, apparently, I think, with some great degree of justification.

Do you feel, however, that the Congress should consider trade adjustment assistance and attempt to improve this, or are you saying to forget it?

Mr. BIEMILLER. Only as an integral part of the overall program. Standing alone, it is not going to solve anything.

You know, Congressman, I can't help but observe since you are an Ohioan and you know that that is where I was born that I suppose I felt a personal affront when the trade adjustment program started and the very first case came up in Sandusky, Ohio, where I was born and was just peremptorily thrown out the window and we have never been able to this day to find out why. This is the kind of thing that gets us.

Another example of that, and this was not a unionized industry, either the second or third case was a ceramic tile case in Little Rock, Ark., the home of the Chairman of the Ways and Means Committee. That was just thrown right out the window. I mean, nobody would play with these things.

RETALIATION BY OUR TRADING PARTNERS

Mr. WHALEN. You have answered Congressman Zablocki to the effect that it is your considered judgment if the Burke-Hartke bill were to pass that there would be no retaliation on the part of foreign nations.

Mr. DENISON. We believe it is to their advantage as trading partners of ours to preserve a viable U.S. market. If we remain big and we have a high standard of living and a high consumption of goods, then they can continue to bring these goods into the country, but if we are overrun it is to their advantage as well.

Mr. WHALEN. Does this view take into consideration the so-called chicken war of 5 or 6 years ago which brought about retaliation?

Mr. DENISON. We think today in light of, as I indicated earlier, the surtax situation and also the fact that the whole problem is so much greater, it is a situation we believe comparable to where individuals will act in their own best interests until there is a law or an ordinance or some prohibition directed that says all of you gentlemen are now going to be treated alike.

Mr. WHALEN. Was not the surtax treated as a temporary measure? The question is how temporary?

Mr. DENISON. It could have been.

Mr. BIEMILLER. For example, Congressman, in Japan the 10 percent surtax had very little impact because the Japanese have so thoroughly integrated their entire economy that they now have a provision that automatically pays the extra tariff from the government to the company that is doing the exporting.

THE CAUSES OF UNEMPLOYMENT

Mr. WHALEN. I would like to move on to an area where I think we all have a great concern—you have expressed it many times—and that is jobs. Now, as I recall the statistics, at the end of December 1969, our

unemployment level stood at 3.5 percent. One year later, December 31, 1970, that had increased to 6.2 percent of the total labor force.

Now, how much of that do you attribute to domestic economic problems and how much of that do you attribute to our foreign trade posture?

Mr. GOLDFINGER. Well, sir, you are referring to the officially reported statistics of the Labor Department, and most of that increase in the reported unemployment was due to domestic policy. That, I think, is fairly clear.

However, there is a considerable degree of unemployment and there was a considerable degree of unemployment back in 1968 to 1969 and in the mid 1960's that was not reported.

Mr. WHALEN. I am sure there is not today, Mr. Goldfinger, and that we can quarrel about the validity of the statistics. I am just wondering, is there today a domestic economic problem in terms of loss of jobs?

Mr. GOLDFINGER. We are saying that there is a serious domestic problem but it is being compounded by a serious problem in terms of foreign trade and foreign investment.

Mr. WHALEN. I would just like to read an excerpt from the November issue of Fortune Magazine, which refers to a study made by Lawrence Krause of Brookings Institution. I will just read this excerpt from the article and I would appreciate any comments that you might make on it because I think it does indicate the total impact of our trading posture, not just the one side of it.

> Krause has attempted to measure the amount for the period from the first quarter of 1970 through the first quarter of 1971. His analysis based on detailed data for specific industries concludes that very little of our unemployment is related to foreign trade. During this period, imports increased at an annual rate of about $4.1 billion while exports rose only by about $3.1 billion. Yet this $1 billion difference did not cause any direct loss of jobs to the economy as a whole while the rise in imports and the decline in certain categories of exports wiped out 108,202 jobs, the increase in other exports and the decline in a few categories of imports created 182,700 jobs.

Then, just skipping:

> Krause found that the aggregate job loss for the year in terms of indirect job effects was a mere 17,000,

he notes.

Then this is a quotation from Krause study:

> If unemployed had increased only because of trade dislocations, the unemployment rate would have risen from 4.16 percent at the beginning of the period to only 4.18 percent at the end rather than to the actual 5.93 percent.

End of Krause's quote.

I wonder if you could comment on that study.

Mr. GOLDFINGER. I have a copy of the Krause article here. The Fortune magazine article that you are referring to does not refer to Mr. Krause's qualifying remarks in his own article, and he does have a series of qualifications.

Second, I find the entire Krause article very deficient. It is a mathematical exercise dealing with numbers and it is not dealing with the real problems that we see here. For example, we see the reports of plant shutdowns which add up to considerably greater losses than

anything Krause indicates. I think that one of the difficulties here is the think I began to mention a moment ago and that is that, for example, when a shoe plant shuts down in a small town in northern New England and those people are unemployed and they seek work, while they seek work they are counted as members of the labor force and after awhile they stop seeking work and they become statistical pariahs, and because they don't exist in the statistics, Mr. Krause—who only deals in statistics—does not report them.

I think that Mr. Krause's analysis, by the way, is simply an attempt to refute us. It is very interesting, sir, that all of these genuine trade experts and so-called trade experts, have suddenly become interested in the manpower, employment and unemployment aspects of foreign trade, as a result of our pressures and our bringing this issue to the front. They did not support our position when we were pushing for genuine adjustment assistance in the 1950's. I don't recall them. I don't recall any assistance from these so-called employment experts when we were protesting the actions of the Tariff Commission in 1963–64 in turning down one case after another.

All of a sudden all of these people have become so-called experts in the employment area.

By the way, Mr. Krause——

Mr. WHALEN. Mr. Goldfinger, I don't want to defend or detract from Mr. Krause, this is a study and really what we are trying to get at, of course, is the total impact of foreign trade upon our economy.

Mr. GOLDFINGER. Let me state Mr. Krause is not an expert in the manpower employment and unemployment area whatsoever. This is a mathematical exercise, and I view it as such.

If Brookings Institution wants to publish it, it is their business.

I consider it an exercise in mathematics.

Mr. WHALEN. We have seen certainly references in Mr. Biemiller's comments this morning and others. Have you made a total impact study that would perhaps refute the Krause study?

I say we are concerned with total although I must confess that statistics are very dehumanizing. They do not indicate the adverse effects on those who have lost their jobs.

Mr. GOLDFINGER. We have pointed out that the agencies of the Government have not come forth with detailed studies on job losses. That kind of information is not available from the Labor Department, it certainly is not available from the State Department, or from the other agencies of the Government concerned in the area of foreign trade.

Mr. WHALEN. I would hope as a result of this maybe we could get that.

Mr. GOLDFINGER. However, we have made an estimate based upon George Shultz' presentations to the Ways and Means Committee of the House and the Joint Economic Committee and, based upon his reports, we estimate that there was a net loss of, I believe it was, 500,000 job opportunities in the period 1966 to 1969.

I would be glad to spell out the basis for that with ample quotes from Mr. Shultz.

Mr. WHALEN. Of course you are talking at a period when we had a low level of unemployment. Further, there is a difference between job

opportunities and total availability of workers to fill those jobs. While there may be job opportunities it also is possible that a low level of unemployment makes it impossible to take advantage of those job opportunities.

Mr. GOLDFINGER. I distinguish between the two.

Mr. WHALEN. Yes.

Mr. GOLDFINGER. The Labor Department has not given us the detailed information on jobs, so that we are compelled to rely on these estimates of the job opportunities involved here.

MOBILITY OF CAPITAL

Mr. WHALEN. I would like to raise just one final question, and it is kind of a basic question. It deals with two basic, almost sacred, concepts that have emerged in our free enterprise system.

I know one which you as a labor organization are very concerned about. I have talked with you, Mr. Biemiller, a number of times on this, as late as yesterday afternoon: The right to organize, to bargain collectively, the right to strike. You have fought for this principle, and I might add that I have supported you on it on legislation which has reached the House floor.

It seems to me that in the free enterprise system we also have another basic right, and I call it the mobility of capital.

Now, let me explain this. Capital, of course, creates jobs, and I think we have always held in the free enterprise system that an individual with capital is free to invest or not to invest. If he chooses to invest, he is free to put it in the kind of enterprise of his choice and wherever he wishes to locate it. And he is also, of course, free to remove that capital from that enterprise and either put it in liquid form or perhaps reinvest it someplace else.

Now, in supporting the Burke-Hartke bill, it seems to me that you are trying to inhibit the mobility of capital, it really derogates this principle which, in my opinion at least, stands alongside of the right to strike as a weapon of labor.

Mr. BIEMILLER. It is an interesting juxtaposition you raise there, but what I want to comment on is when you get into the field of foreign capital, foreign investment, we are faced with the fact that every other country now has capital controls. We have very minor ones in this country; we think they ought to be strengthened.

Mr. WHALEN. May I also interject this thought, that many countries have restrictions and controls on the right to strike and the right to bargain collectively. In many European nations, for example, the wage rate is determined by a panel at the end of each year. So I think we have to look at that, also, Mr. Biemiller.

Mr. BIEMILLER. But when you are dealing with the question of international competition and you have to recognize that you have in the United States the only country that I am aware of that does not consciously try to set up a foreign economic policy and control that foreign economic policy through the control of foreign investment, and I think this is one of the points that we keep making, this is not the world of the 1930's or the 1920's; it is an entirely different world.

Mr. WHALEN. Don't those countries, Mr. Biemiller, that do have policies which control capital also control wages and labor?

Mr. BIEMILLER. No. I am talking now about foreign investment control is what we are up against. You run into it in so many different ways and the control over foreign capital invested in other countries.

Our rubber workers, for example, just to give you two illustrations of the kind of thing that bothers them; on one hand, France refuses to let one U.S. tire be imported into France. Therefore, say American rubber companies, in self-defense, we have had to go and build plants in France. This is the kind of thing that bothers us on the one hand.

On the other hand, Canada has permitted France to come into Canada and build a plant with the understanding that every tire is exported to the United States, it is not sold in Canada.

So you have got a French company working in Canada, exporting the entire product to this country. This is the kind of thing that has got us worried on the question of capital controls.

Mr. WHALEN. I think you brought up the question of trade restrictions abroad, and I think we have to recognize that many such exist in our own country. I would hope that this subcommittee, through its study, would arrive at some determination as to how the United States stands vis-a-vis other countries in terms of tariffs and nontariffs.

Thank you, Mr. Chairman.

Mr. BIEMILLER. May I add just one more point?

Mr. Zablocki, of course, was quite right that for many, many years the AFL–CIO ardently supported reciprocal trade agreements. I, for example, was the labor adviser to the GATT delegation in 1967 and 1971 when we worked very hard to try to work problems out, but during the 1960's we began to get increasing evidence that the reciprocal agreements were working adversely to the interests of the United States, in our opinion, and particularly to the interests of the U.S. workers.

Now, it was not until May of 1971 that we finally reached in the labor movement a change of policy.

But the significant thing about it is that there is not a single union in the AFL–CIO that today dissents from the present policy that we are pursuing, which is best embodied in Burke-Hartke.

I mean that does not answer every problem, but that is the best way we can get at it.

There is not a single union that has any dissent to that policy today.

Mr. WHALEN. Thank you, Mr. Chairman.

Mr. CULVER. Mr. Wolff.

GOVERNMENT SUBSIDIZATION OF EXPORT INDUSTRIES

Mr. WOLFF. Thank you, Mr. Chairman.

It is good to welcome you, Mr. Biemiller.

In the dialog, the word "protectionist" seems to have a somewhat dirty connotation, and, if it does, then I think that I will bear that label because though I have been a free trader all of my life and come out of the private sector, I do think it is time for some protection for American industry and American labor. We do have domestic protection for industry against unfair competition. We do not seem to have that same sort of protection from unfair competition from abroad.

I find some of the things you have said, as well as experience that I have had over the years to bear this out.

The type of trade restrictions that exist in various areas of the world against the importation of our products works against our best interests, and I think we do have to take some steps in order to see to it that we are protected from unfair competition, such as the dumping practiced by some nations today.

I do recall the fact that where I was in Japan recently, I saw television sets being sold there at higher wholesale prices than they are sold at retail in the United States.

Why? Because of the trade policies that they have.

I think one area, however, that I would like to get your opinion of is how would you feel about the idea of offering some sort of subsidy to American industry to make us more competitive in the international market?

We do have that type of competition from abroad today where industries are subsidized by governments to make them competitive in the American market. How would you feel about something like that?

Mr. GOLDFINGER. Well, sir, the administration came up with a proposal like that——

Mr. WOLFF. I mean meaningful ones.

Mr. GOLDFINGER. Well, it was DISC, and we opposed it. We are opposed to shifting the income distribution and the tax burden of the United States, and we are opposed to tax bonanzas to business. We don't think this is necessary.

We think other steps are necessary.

I fail to see why it is necessary to provide all kinds of tax bonanzas to business.

Mr. WOLFF. Because it provides jobs for Americans and added business for our industry.

Mr. GOLDFINGER. But that is questionable because the jobs to American industry are dependent upon sales, and it is the level of sales in the long run that is the incentive to American industry. It is not the tax bonanzas. The tax bonanzas happen to be windfalls.

Mr. WOLFF. Not tax bonanzas, but tax credit to a corporation here to permit them to be competitive in the international market. We cannot sell everything we make just to ourselves.

Mr. GOLDFINGER. Let me pose a practical question. Are you suggesting, for example, that Ford, Chrysler, General Motors, and IBM, and the other multinational corporations which operate all over the world and have facilities all over the world and compete against American products around the world, including domestic markets, that those big multinational corporations should receive additional bonanzas, tax giveaways?

Mr. WOLFF. You call them bonanzas. It is not big business alone, but small business, that needs help to export. I would like to see small business encouraged to compete in the export market. The more that we sell in the international market, the greater the opportunity for Americans to find work.

Mr. GOLDFINGER. We agree with you, sir, but the fact of the matter is that the well over 90 percent of what is produced in the United States is sold domestically.

Our major market is the domestic market. The major issue is the domestic issue.

The foreign trade issue is an aggravating one and a complicated one.

MARKETING ASSISTANCE

Mr. WOLFF. That need not necessarily be so. A greater proportion of our sales should be export sales. It is not aggravating to New York where port jobs have been lost because there has not been the export trade that we have had in the past and it is not of infinitesimal value to the large numbers of American businesses who no longer can compete in international markets.

I think this is a two-way street.

I think we have to protect against unfair competition from abroad, but I also think we have to assist the American manufacturer to be able to compete abroad. I think that the subsidies afforded foreign competition to enter the American market, that we have to compete with in various areas of the world, should be met by the United States. The dairy farmer has to compete today, together with the American manufacturer of cheese, with the producer of cheese in Finland and in other areas of Scandinavia. Why? Because the cheese manufacturer abroad is being given a subsidy for advertising. He is being given export subsidies, tax credits, which makes it possible for him to compete and undercut American manufacturers.

Now, in this area of the two-way street, I also propose you give some consideration to another factor. There should be made a comprehensive study of the American marketplace to determine those items that we are not producing that would provide a market for the companies who produce abroad so that they will redirect their attention to noncompetitive items that we are producing.

I wonder whether or not the AFL–CIO has contemplated anything like that.

Mr. GOLDFINGER. No, we have not, sir, but what we see and what we have been watching, the exporting of one product line after another—you know, in terms of jobs and technology.

HAS U.S. BUSINESS KEPT PACE WITH ADVANCING TECHNOLOGY?

Mr. WOLFF. Could it be, too, that American industry has not kept pace with utilizing the advance technologies that are available to them and that the other countries of the world have caught up with us?

Mr. GOLDFINGER. If that were essentially true, sir, then I wonder why is it that the other companies in other countries of the world are so very anxious to get American patents, American license agreements? They are operating with American technology.

A good deal of Japanese industry itself is dealing with American technology.

I am not downgrading technology in other countries, but it so happens that, by and large, American technology in most industries and most product lines is still considerably ahead of the rest of the world, and the rest of the world is trying to get American technology, and they are getting it through American subsidiaries, of foreign subsidi-

aries of American companies, and also through license and patent agreements.

THE CANADIAN DEFENSE AGREEMENT

Mr. WOLFF. I don't disagree that they are making use of American technology and in some cases they are improving upon it, but my point being American industry today has grown fat and they are not making use of advanced technology. American technical advisers have always kept this Nation in a leadership position.

There is one other area I think that deserves attention. I wonder if you have directed your attention to the Canadian defense agreement. Whereas originally this agreement was set up to provide an easy flow of materials between Canada and the United States, Canada levies an import duty on the materials that are produced in this country but materials that are produced in Canada pay no duty coming into the United States. As a result American industry is losing out to Canada and there is a great imbalance of trade that has occurred in this particular area.

Has the AFL–CIO done anything about this?

Mr. BIEMILLER. The whole Canadian situation is one that we have been spending a great deal of time looking into. Actually, I was going to inject when my old friend and colleague, Congressman Zablocki, started talking before about Canada. I usually don't feel much sympathy for Secretary of the Treasury Connally, but when he pointed out that the Canadians have had practically a one-way street with us for a long time and that they were screaming that it would ill behoove them to be screaming, take also the Canadian auto treaty which permits absolute free trade in cars and parts of cars. When that treaty was before the Congress several years ago, a handful of Senators were sort of like voices in the wilderness warning what would happen.

I remember particularly Secretary McNamara, and Senator Hartke of Indiana, both of whom, unfortunately, proved to be very good prophets on the loss of American auto parts manufacturing in this country.

Also, this is a perfect example of where the multinationals start to operate.

About the time that that Canadian auto treaty was being consummated, par of Ford of Canada stock was 140. Ford of United States offered to buy it up at 180. Needless to say, an awful lot of people sold, that looked like a good price, 40 points above the market price.

Today with the Canadian Auto Treaty in existence, that stock has been split five for one, the split stock is selling at 96, Ford of United States now owns 87 percent of Ford of Canada. They don't care which way the traffic goes back and forth across the border.

This is the thing that bothers us is the big multinational corporation who can't lose in this deal, and until we find some way of controlling that situation we are up against a hopeless problem.

Mr. WOLFF. I must say that coming out of the private sector I am not opposed to the idea of multinational corporations, although I am a cosponsor of the Burke-Hartke bill.

The multinational corporation is a necessary part of international commerce.

To support what you are saying with referenec to the question of the automobile tax treaty that we do have. There is an imbalance today of some $3 billion with Canada so far as the defense procurement is concerned and the U.S. Government continues to buy defense items from Canada under this treaty arrangement. I think that if we are to do anything at all to help provide a job market in this country that we should set the example ourselves and see to it that the U.S. Government at least does its first buying here.

Thank you, Mr. Chairman.

Mr. CULVER. Mr. Steele.

DATA NEEDS—THE ECONOMIC EFFECT OF MULTINATIONAL CORPORATIONS

Mr. STEELE. Thank you, Mr. Chairman.

Mr. Biemiller, I am very pleased to see that you have said the things that you have said this morning about manufacturing jobs. I think we have heard all too many people downplay the disappearance and the decrease of manufacturing jobs on the basis that the service sector of our economy is increasing and taking up the slack.

I think your points are very well taken that manufacturing jobs pay higher wages than do service jobs, the fact that all production workers cannot be placed in service industries, and that there is a great need for diversified economy.

What I am most concerned about in the Burke-Hartke bill, however, are two things: First of all, as Mr. Wolff, I think, very ably points out, the fact that the emphasis is on restrictions rather than making us more competitive.

It seems to me that the second point is essential, that is, the coming down on multilateral corporations without adequate evidence of precisely what the effect of multinational corporations in this country is.

Now, the AFL–CIO, yourselves, have very recently announced a massive new computer study to try to determine precisely what the effect on American jobs of the growing trend toward multinational corporations and growing business of multinational corporations is.

Now, I have not seen the results of that study. I have, in the meantime, however, seen the results of a counterstudy done by a business group which claims just the opposite. That the multinational corporation, in fact, are providing more jobs than would have been provided otherwise, the fact that the largest multinational corporations in this country grew domestically faster than nonmultinational corporations—that is, precisely the opposite argument that you are making.

We are asked to decide on a bill like Burke-Hartke without adequate information and this is a point that the AFL–CIO, yourselves, made, I believe it was in January.

I just wonder how that study is coming and when we, in the Congress, are really going to have some information to operate with.

I applaud you for undertaking that study because I think that up until now we have been operating in a vacuum and we have not known precisely what the effect of these corporations has been.

Mr. GOLDFINGER. Well, you know we have appeared before congressional committees for years now and we have asked for solid information and for information in this whole area, and we have not received

it. We have not seen it. This is one of the difficulties. As I mentioned in response to a question from another member of the committee, we don't have any detailed information from the agencies of the U.S. Government on the specific losses of jobs and we have to rely upon newspaper reports and reports from local unions because the U.S. Government agencies have not to date given the information.

Let me just quote one paragraph or a few sentences from the New York Times of April 2 and I think that this is just one small aspect of the obvious loss of jobs despite what the Chamber of Commerce may say about this.

The New York Times reports:

> The Chrysler Corporation now imports an English car and calls it a Plymouth Cricket and a Japanese car and calls it a Dodge Colt. General Motors and Ford import Japanese-made trucks and give them American names and that American Pinto may carry a German engine and be assembled in Canada.

There is an obvious loss of jobs here. You know, even though we cannot quantify it, unfortunately the loss of jobs, I think, is fairly clear in those examples.

Furthermore, the loss of jobs is fairly clear in the fact that we hardly produce any radios in the United States any more at this point by comparison with 10 years ago when perhaps we produced 50 percent or more of the radios sold in the country.

Back in 1960 only about 5 or 10 percent of the shoes sold in the United States were imported. We now import something in the neighborhood of half or more than half of the shoes sold in the United States.

We go down the line.

There is obviously the loss of jobs.

Mr. STEELE. Well, we know there is a loss of manufacturing jobs and we also must be interested in, however, what increases in jobs have taken place to compensate these losses and precisely what the role of the multinational corporation is in the loss of these jobs.

Now, this is an enormously far-reaching piece of legislation and I have to come back again to the fact that we do not yet have adequate information on the subject. We do have many important statistics. For example, we now know that 644 manufacturing firms have left the State of Connecticut since 1954—the State of Connecticut alone. We know what is happening on one side of the ledger but do we know enough about what is happening on the other side of the ledger and precisely what the impact of the multinational corporation is?

I think by your own acknowledgement, we don't.

What is the status of your study, for example, that was announced?

Mr. GOLDFINGER. The study that you referred to is a study that was announced by the industrial union department of the AFL–CIO and I am not acquainted with the details of that study.

Mr. STEELE. But isn't it important we have that kind of information before we proceed on this kind of legislation?

Mr. GOLDFINGER. Yes, sir; but one of the tragedies in this whole situation is that the Members of the Congress are depending upon us to produce the information that the Government of the United States has refused to produce for the Members of the Congress.

Why does not the Labor Department produce this?

Mr. STEELE. That is a valid point, and there is no question but that there is insufficient information, almost no information on this point.

Only in the last 6 months really have we begun to gather that kind of information, but I think that we should have it in order to draw up this kind of very far-reaching legislation.

I applaud your efforts, and I also am very strongly critical of the fact that an organization such as yours has to undertake this kind of study because the Federal Government has never undertaken it.

Thank you.

Mr. CULVER. I want to thank our witnesses this morning very much for their cooperation and I believe their contributions will be extremely useful in the subcommittee's consideration of this subject.

Our other witnesses who are scheduled to testify this morning have been kind enough to agree to return this afternoon in view of our time problems.

The subcommittee will now stand recessed until 1 p.m., this afternoon.

(Whereupon, at 12 noon, the subcommittee recessed, to reconvene at 1 p.m.)

AFTERNOON SESSION

Mr. CULVER. The subcommittee will come to order.

It is with great pleasure that I welcome our next witnesses today, Mr. Jack Sheehan, legislative director for the United Steelworkers of America, and Mr. Meyer Bernstein, the international affairs director for the United Steelworkers.

It is my understanding that you would like to have submitted for the record your prepared statement and at this point just summarize the highlights of that statement and make some additional comments.

Without objection, it is so ordered.

Mr. Sheehan?

STATEMENT OF JOHN J. SHEEHAN, LEGISLATIVE DIRECTOR, UNITED STEELWORKERS OF AMERICA

Mr. SHEEHAN. My name is John Sheehan, legislative director of the United Steelworkers of America, a union which represents about one and a quarter million workers in the metalmaking industries of steel, aluminum, and nonferrous.

We also represent operations of those industries and fabricating plants thereof.

I am accompanied, as you have indicated, by Meyer Bernstein, who is the director of our international affairs department of the Steelworkers Union here in Washington, D.C.

Now, the labor movement has, for some time, been urging a change in our foreign economic policy. That policy has been undergoing a critical scrutiny by the labor movement and the results of our review, perhaps partial though they may be, are frightening.

The reason for our inquiry has been based upon the realization that our trade policy is not working, and not working that is in terms of jobs and job opportunities.

We are, of course, acutely aware of the situation in the steel industry where last year, for instance, over 18 million tons of steel entered the United States. This amount of tonnage represented about 18 percent of our domestic consumption.

It also represented about $1 billion in lost wages for our members and a whole year's employment of approximately 100,000 steelworkers.

Another way of visualizing that amount of steel is to realize that it is more steel than was shipped by the fourth, fifth, and sixth largest steel companies combined.

Now, even at that, the figures hide the disastrous inroads which imported steel was making in the specialty steel sector of the industry, and you may have been hearing quite a bit about this over the last year and the inroads there are very disastrous and our members have been speaking very vocally about this aspect of the industry.

For instance, during the last decade, imports of stainless steel rose from 7,000 tons or 2.6 percent of the market in 1959, to 192,000 tons.

Now, the tonnage increase is not itself what is to be noted, but the fact that this represented about 22 percent of the market.

Now, in tool steel, which is a part of the special steel industry, the penetration of the market is between 15 and 17 percent. These import levels have been maintained and even accelerated despite the voluntary quota arrangement. As a matter of fact, those restraint agreements, insofar as the specialty steel industry is concerned, were massively violated.

I refer here to the voluntary agreement with the common market with Japan where we have attempted voluntarily without Government intervention to moderate the flow of steel.

Actually, imports in the stainless steel sector were 34 percent over the voluntary agreement level.

In tool steel, they were 22 percent over that level; in alloy steel they were 61 percent in excess of the voluntary level.

Now, I did not wish to get too statistical since the evaluation of the severity of this import penetration is more properly perhaps the responsibility of the Ways and Means Committee, and I know that it is there being given close scrutiny, although your committee, I am sure, has a very deep concern about it, also, but I have quoted these figures to indicate the degree of the steelworkers' concern and to substantiate our contention that our trade policy must be revised.

It is most fitting, therefore, that your committee undertakes a review of the impact, and I think maybe in our mind that this is the area which we appreciate your entrance into this field, to review the impact which a change in our trade policy would have upon our foreign affairs or our foreign political policy.

Perhaps, more importantly, such a review could provide a course of action in aiding foreign policy to adjust to the changing environment in the international trade area rather than having foreign policy merely be an obstacle or the type of foreign policy that we are following having it be an obstacle to the recognition for the need to reevaluate our trade policy.

Certainly the two—foreign trade police and our foreign affairs policy—are intertwined, but I am afraid that there is such a dogmatic aura surrounding the relationship that one is led to believe that any

tampering with the current interpretation of what constitutes the ingredients of a freer trade or a reciprocal trade policy, that any tampering with that must be viewed as an attack upon our foreign affairs policy and as putting in jeopardy the political position if not the security of the United States.

Perhaps your review can develop some better perspectives than this that I just mentioned.

Now, I realize that the purpose of these hearings is to study the administration of the trade adjustment assistance program, which was originally designed in 1962, to absorb some of the adverse economic impact due to a more aggressive implementation and pursuit of our reciprocal trade policy. But before we comment upon the specifics of that program, I think it is necessary to make some remarks about the underlying assumptions which many hold—especially our diplomatic representatives—about the concept of an adjustment assistance program.

No. 1: Those assumptions, it seems to us, are based upon the conviction that our diplomatic or our foreign political policy considerations should have a priority over our foreign economic policy which, in turn, actually becomes its handmaiden. Any domestic economic injury is expected to be suffered in the interest of our foreign economic policy. Hence, it is acceptable and becomes reasonable and some people even think it is generous on the part of the Government that adjustment assistance should be considered as an adequate response to those workers who are sacrificed in the pursuit of our foreign policy considerations.

Yet we question that thinking. We feel that our foreign trade policy should be evaluated on its own merits. If it is found wanting, then remedial economic measures should be taken to correct the imbalances.

The type and the degree of our trade balances which we have results in a large part from positive public policy decisions by our Government in the form of trade and tariff concessions.

But when those governmental decisions prove to be onerous to large segments of the industry and of the economy, then there should be no hesitation about changing them, even though they may have been made to obtain some diplomatic advantage or political advantage.

We do feel, however, that our foreign policy objectives can still nevertheless be obtained through means and policies which are more sensitized to our own domestic economic problems, and I think that is the area which we would like this committee to realize—that you can pursue these very admirable objectives without wreaking the hardship that we are beginning to read from our membership.

Certainly during the period of time when our trade policy resulted in economic growth both for ourselves and our trading partners, our foreign policy objectives could include a further expansion of trading opportunities.

Furthermore, the desired goal of internationalism could be pursued through an expansion of trade relationships.

However, within recent years our trade situation has undergone a reversal. In the past few years, as we all know, we have actually become a deficit nation in trade. In steel, for instance, we are in a deficit position since 1962. As a matter of fact, last year's steel deficit of ap-

proximately $2 billion almost alone accounted for the total trade deficit of $2.3 billion and it is my understanding that the $2.8 billion would be much lesser than the figure because it includes military procurement.

Now, these imbalances indicate that our trade policy needs to be examined. We cannot continue to pursue the present course because the resulting and expected resulting economic injury is no longer, to use the phrase that we see more recently, now "socially acceptable."

Unfortunately, the prospect of change in the rules of international trade is being resisted and even resented because it would supposedly cause repercussions in our foreign policy relationships. We maintain that our pursuit of internationalism need not be obstructed by an honest evaluation of the economic injury here being sustained in this country and by the development of a fairer and more balanced trade relationship arrived at perhaps preferably through international arrangements.

The point we are trying to make is that our trade policy must be scrutinized in terms of its own effectiveness and not, apparently in the eyes of some, solely in terms of its value as a foreign policy tool.

The key question is whether the American trade policy in the current international climate of either nationalized, subsidized, or protected foreign industries which are rationalized by their own governments in terms of their own national interests, whether our policy can adequately provide an opportunity for our own exports and prevent an erosion of our basic industries in terms of our own productive capacity and in terms of our manpower needs.

Within this context, certainly the topic of this committee's review, a simple revamping, no matter how well it is done, of trade adjustment assistance, no matter how well intended that objective is, is meaningless.

Now, the second comment that I would like to make, Mr. Chairman, is that in 1962 our union accepted the proposition that our trade policy was a successful one, even though even then there were rumblings that all was not quite well. But when the economic injury was slight and the economic benefits were great, it was quite proper for the labor movement to raise questions about equity or those that would be injured and to support the trade adjustment assistance to aid those who were adversely affected by changes resulting from changes in public policy.

The concept of trade adjustment assistance was a satisfactory tool for compensation because we thought our trade policy was working. It was a new tool because prior to 1962 the only relief available to those injured by imports was more protection—which, even then, was not too forthcoming.

After 1962, escape clause relief was still possible, but so, also, was economic compensation which even the worker could obtain.

Perhaps a more callous description of the program, at least today in hindsight, is to categorize it as one in which the worker's injury—his unemployment, was brought up with extra unemployment compensation benefits, although I fully realize that there was great anticipation that retraining and relocation in a supposedly expanding economy would make his loss short lived.

Thus, trade adjustment assistance was desirable, equitable, and possible because injury was supposed to be minimal.

But now the injury and prospective injury to workers overshadow the trade-off in terms of adjustment assistance.

Our trade policy now works to the benefit of those multinational corporations which invest abroad or in favor of those countries which expand their production capacities in order to seize an even greater share of our market, a share which is not proportionate with the growth in our demand. It is that message, Mr. Chairman, which we are trying to deliver through the instrumentality of the Hartke-Burke bill. It is that message which we would like to deliver today.

A trade adjustment assistance program—even the most effective—cannot be an adequate substitute for an effective trade policy, no more than can a Federal unemployment compensation system be a substitute for a vigorous economy. Actually, both of these compensatory systems will work only if we have a vital trade and a domestic economic policy.

But, actually, don't talk to us about compensation when what we want are jobs, not relief checks, even though the pending bills in this area would make those checks a little bit more accessible.

We concur, therefore, in the position of the AFL–CIO who stated earlier in their position this morning that "Trade adjustment assistance is an idea whose time has passed."

Unfortunately, too, its time has passed while it was left aborning.

Mr. Meyer Bernstein of our International Affairs Department has attempted on many occasions to obtain relief for our members from this program and he will relate to you his own experiences. While we certainly would like to liberalize the trade adjustment assistance program so that these experiences will not continue, and he will comment specifically on some needed improvements, we remain convinced that a new trade policy—not solely a new trade adjustment assistance policy—is what is needed.

At this point, Mr. Chairman, I would like to have Mr. Mayer Bernstein comment on our experience with the trade adjustment assistance program.

Mr. CULVER. Thank you very much, Mr. Sheehan.

Mr. Bernstein.

STATEMENT OF MEYER BERNSTEIN, DIRECTOR OF INTERNATIONAL AFFAIRS DEPARTMENT, UNITED STEELWORKERS OF AMERICA

Mr. BERNSTEIN. Mr. Chairman, the one provision of the Trade Expansion Act of 1962 which received almost universal support was that of adjustment assistance. Even those who had opposed the bill in all its other aspects were in favor of this one provision—the idea being that in any kind of an exchange program some people are going to be hurt, that cannot be avoided, and if some workers are going to be the sacrificial lambs on the altar of liberal trade, then something ought to be done for them to make up for the sacrifice they are giving on behalf of their fellow citizens.

So, trade adjustment assistance was incorporated in the bill.

When it was introduced, it was thought that it would work without any difficulty.

Mr. Arthur Goldberg, then Secretary of Labor, estimated that some 18,000 persons a year would be affected, 90,000 people in the first 5 years of the act, and that there would be no difficulty in obtaining relief for them.

Well, I must report to you, Mr. Chairman, that the bill in this aspect at least has been almost a total failure. The adjustment assistance provisions of the law became a dead letter. Within a few months of the passage of the bill many unions filed petitions and my union was one of those. These unions acted in good faith as did mine. We thought that we could get some relief for our people who were suffering. The law was clear. They lost their jobs because of increases in imports, because of concessions which had been made. Yet the Tariff Commission of that time and the Tariff Commission through all the years up to the end of 1969 all took the same position and rejected every single petition.

After awhile, the unions got tired and stopped filing, so that for most of the period from 1962 until 1969 no petitions were filed at all, no action was taken, and the law with respect to the adjustment assistance had become a dead letter.

In 1969, the United Steelworkers of America decided that we would try once more. We had been hurt in many fields. We picked out three companies, or three plants of two companies, and filed petitions with the Commission using an entirely new argument. We had a problem due to the language of the law, the provision in the law which says that in order for a case to be approved we must be able to show that "as a result in major part of concessions granted under trade agreements, an article like or directly competitive with an article produced by such workers' firm, or an appropriate subdivision thereof, is being imported into the United States in such increased quantities as to cause, or threaten to cause, unemployment or underemployment of a significant number or proportion of the workers of such firm or subdivision."

We thought this language was clear, we didn't think that it would lead to any difficulty.

The Tariff Commission in 1963 and the Tariff Commission as it was composed ever since then has taken the stand that practically no conditions could exist under which they would approve a petition.

So, when we looked at this thing, again in 1969, we decided we would try to see what was behind the mind of the Commission.

Now, this is difficult. The difficulty arises from the fact that the Commission scarcely ever tells us why it approves or disapproves anything. We don't get any facts from the Commission. We don't get any reasoning from the Commission. We get generalizations.

Now, they can excuse this on the grounds that much of the information upon which they base their decision is confidential, and, therefore, they cannot discuss it. That may be true, but we are not in a position to know what they are doing or why they are doing it. So we don't know when we can file a case with any expectation of getting approval, or which cases we ought to recommend not be filed because they would be a waste of time since they would not meet the standards set by the Commission.

So I decided at that time to adjust myself to this concatenate chain of events which must have existed; namely, that there must have been a concession that the concession must have been the major cause of an increase in imports, and that the increase in imports must have led to the injury.

I argued that what we are dealing with here is something that the Commission obviously does not understand. They thought "major cause" meant that the concession must have been the major cause; that the increase in imports must have been the major cause.

Well, it does not work out that way in modern business. We can have situations where a company is faced with a number of problems. The sum of these problems taken alone is not so great that the company can't continue, but then suddenly a new problem arises, an increase in imports. The increase in imports results in part, major or otherwise, from a concession.

Now, we can't prove that the concession was the reason for the increase in imports. Nobody can prove this. We cannot read the minds of the exporters or the importers. But we do know that one must follow the other, that one has been the consequence of the other to a certain degree—how much, we don't know, but certainly to a degree.

And we know what the result to our people has been. We know that a company which might have been able to stumble along for years as a marginal producer could not continue to remain in business when it had to fix all of its problems of low productivity, of high wages, of high transportation costs, bad location, bad management, if you please—all kinds of other domestic problems. Those problems plus foreign competition it can't face altogether.

We can prove by citing management's statements that they think the reason they went out of business was because of foreign competition. They told us that. They had complained about foreign competition during the years, but we cannot prove the other points.

The Commission has apparently taken the stand that we must be able to prove the other points or they must be satisfied as to the other points and this is simply an impossibility under circumstances which exist today.

I compared it, for example, with a spring where you can put weights on a spring up to its limit of elasticity. The weights would be equivalent to what we talk about as domestic problems, obsolescence, and so on. But when you had added to that the additional weight of foreign competition, then the spring was pulled beyond its limit of elasticity, the modulus of its elasticity, and would not snap back into shape.

What, then, caused this inability to spring back? Was it the domestic problems?

Sure, they accounted for more of the companies' difficulties.

Or was it this last event; namely, the foreign competition?

Obviously, as we see it, it was the foreign competition because without that the company could have existed.

In one case in which I thought I had the best set of circumstances to fit any kind of an interpretation involved a steel company in a remote area which 50 years ago was the center of steel production. In this case the Commission said, well, we won't grant this petition, as they told us, we won't grant this petition because the equipment was obsolete.

Well, sure, the equipment was obsolete, but just a couple of months before they announced a shutdown they examined whether or not, it would be worthwhile to modernize that mill and they decided that because of foreign competition it would not be worthwhile because they could not compete even with a more modern mill. So they didn't modernize, they shut down.

We filed a petition, the petition was rejected. The argument the Commission made, one of the arguments, was that it was obsolete. Obviously, here we have a complete lack of understanding on the part of the Commission. I don't know what we can do to get the Commission to understand what the problems in American life are, what economic difficulties are. All I can say is that the functioning of the Commission, the operation of the Commission, the secrecy with which it deals, are such that we are not in a position really to present a line of reasoning to them which they will understand.

We are not in a position to even know what other people are telling the Commission.

The Commission asked us to furnish them with information. I will get to that in a moment.

Then it takes this information and goes to another source; namely, the company, and verifies it—more than verifies it, starts out all over again and gets a new set of information.

Then it accepts statements from anybody else who might be interested. They never tell us what either the employer has told them or what others who may be interested in the problem have told them.

For example, when I filed the first three petitions which were approved involving the two steel companies, and which started a new life for adjustment assistance in the Commission, I did not know that an importers' association had sent to the Commission a statement opposing our application. The Commission never told me that. I had no opportunity to refute their arguments. I never was told what the employers told the Commission, when the Commission sent the man to them to ask them about the case.

In our first petition that we filed back in December 1963, involving employees of the United States Steel Corp., the corporation was opposed to our petition. It said that it thought this might hurt their application for an escape clause. Now, they obviously opposed the petition to the representative of the Commission who came to ask them about that. We lost that case.

Seven years later, when we filed a new petition for other plants in the same corporation, this time the corporation was on our side. It was in favor of our petition. It helped us in gathering information. This time it gave favorable information to the Commission's representatives, and this time we won.

But in neither case did we know exactly what they said. The Commission never told us. We think this secretive operation of chamber procedure is wrong. We think that we ought to be allowed to know what others are saying, and it is not enough to say that we can have a hearing, because the employer will not come to a hearing if he is opposed to the petition. He will just give this information secretly.

Another aspect of the same kind of secrecy came to light in another experience we had.

Remember that adjustment assistance is available to employers as well as to unions.

In one case involving a Steelworkers plant, an employer filed the petition for adjustment assistance. The employer did not tell the union that it was doing this, but one of its main arguments in favor of its petition was that it had to layoff workers, it was forced to layoff workers.

The Commission investigated. It sent a man down, got all the facts, wrote a report, saying yes, the company had to layoff workers, and this was very bad, and we cannot continue this way, we have to get assistance, and the petition was approved.

Neither the company nor the Commission told the union that the company was filing a petition. The Commission never told the union that it had granted the petition. It is only because I read every document that the Commission puts out that I was able to discover this, and only because I happened to know that this particular company was organized by my union. We have more than 2,000 companies under contract, so I don't know them all, but I happened to know this one.

Then, of course, I filed a petition for our people, and then we got that, too, because the same line of reasoning applies to workers as it does to management—as it does to the firm.

This indifference, I might say indecency, on the part of the Commission, should not be tolerated. This kind of thing is discrimination, and it is the worst kind of attitude for a Government agency to hold.

Even the tax office will tell a taxpayer when he pays too much tax, will take the initiative in doing so. So we ought to have a Commission which ought to take some initiative in letting people know what they are entitled to.

If the firm is entitled to benefits under the very same regulations that workers are entitled to benefits, and the petition is approved, the Commisison ought to notify the workers that they are entitled to the same thing.

Another problem we have is one of the Commission violating the plain language of the law. The law says that within 60 days of filing—Let me read you the exact report:

> The report of the Tariff Commission of its determination under subsection (c) (1) or (c) (2) with respect to any firm or group of workers shall be made at the earliest practicable time, but not later than 60 days after the date on which the petition is filed.

That is clear. You file one day, and 60 days later, the Commission must come to a determination. The first petitions, and the first three that I filed after 1968—that is in 1969—the Commission held to this rule, and then it began to change it. It began to give a new interpretation to the plain language of the law.

Instead of "filing" meaning the date filed, they seemed to change it to mean the date on which the Commission accepted the petition.

So I would file a petition, wait for a month or two for something to happen, and then I would get a letter from the Commission asking me for some additional information, and I discovered that the petition had not been accepted yet, and that the countdown had not yet begun.

Generally, the information they requested was information which

was already in the petition, or information which they already had. Nevertheless, I would write back, and then I would get another letter, and this would continue.

Finally, I got exasperated, and I called up the secretary who signed the letters, and I said, "What do you mean? I don't understand your letter. All of the information you request in the letter is already in the petition."

And he would answer, "I don't know what the letter says."

"What was that?"

He said, "I don't know, I just signed the letter."

"Well, who wrote it, then?"

"Well," he says, "the general counsel wrote it."

I said, "Are you telling me that the general counsel gives you a letter, and you just sign it?"

He says, "Yes."

I said, "All right, transfer me to the general counsel."

The general counsel refused to take my telephone call. I never was able to get any information from him.

This happened time after time, with the result that weeks and months would go by, and membership on the Commission would change.

In this particular case, which I thought was the strongest one we had, we lost.

Now, this is irresponsible. They have no right to twist and turn and tear legislation to serve their own convenience, and I think it ought to be stopped, and stopped immediately.

In connection with this, let me point out the kind of information that they want.

Now, there are two things wrong with it. The first concerns a Government agency, which is charged with making investigations, asking a worker or a union, which is not the prime custodian of information, to furnish great details concerning its petition or its charge.

That is why the Commission is there. They have subpena power. They have the ability to get information directly from the source. Yet the Commission asks us to go to somebody else, sometimes back to the Commission, to get information for them, and when they get it, they don't accept it, anyhow. They start all over again. This is irresponsible.

The kind of experience of this nature that I have had with the Commission is that they ask us, for example, to give the total number of establishments, all articles produced by the workers' firm, and their locations. Why, even Moody's does not give all this, with all the conglomerates and subsidiaries that have been established now.

I had a case, for example, of a company which is a subsidiary of a subsidiary of a conglomerate, which is a subsidiary of another conglomerate. You wonder what company we are talking about. For example, this is a company that produces heavy equipment, and who owns it? Greyhound Bus and Armour.

Well, who do you go to? Why should we list all the plants, all the stations, all the other operations that this company has, when all we are talking about is hydraulic valves? Yet they want us to give all this information.

They want to know the basis of the claim that the increased imports

resulted from the trade agreements.

By the way, I am reading from the rules of practice and procedure of the U.S. Tariff Commission.

They want data on the 5 most recent years showing the value of total sales of all articles produced. All right. We can go to Moody's and get that, or get part of it, at least, for the firm as a whole. That we can get from Moody's.

But what we cannot get is a breakdown by each separate establishment. Why, nobody can get that information. That is confidential information. That is not available in any public document. How, then, can we get it, as a union; what about the poor worker who does not have a union, and is filing an individual case? How is he going to get this kind of information? They don't say.

Then they want the average number of production workers, again by each separate establishment, and the company will not give that to us.

Well, this kind of information that they ask us to get is nonsense, it is ridiculous.

These people don't undertsand American business. They don't understand American industry. Worse, they don't understand operating procedures.

We never can get from a company any information with respect to a separate plant. They never will break it down that way for us. They always say this is secret, confidential, competitive information which we cannot give to you. And we accept this. But now the Tariff Commission tells us we have to get it from them.

Worse than that, they ask us for information on imports. Import information we can get only from Government sources, and it is the U.S. Tariff Commission that has this information.

Then they ask us to describe the article exactly. That is not what the law says. The law says a directly competitive article can also be used. But they don't accept that in the Tariff Commission. They want to know exactly what the TSUS is, exactly what it is.

That is easy enough, when an article is described, and has a separate TSUS number, but when it does not have a number, then we have to get that information from somebody else. And it is the U.S. Tariff Commission that puts out this information in its own documents.

So what they do is they send us a letter, holding up our petition, asking us for this information, then we go to somebody else in the Government, we ask him to go to the Tariff Commission, get this information at the Tariff Commission, to give it to us, then we write it in a letter and send it back to the Tariff Commission.

This is utterly ridiculous, and it ought to be stopped.

The next question is about the objectivity of the Commission.

Mr. Chairman, the fact of adjustment assistance, the right to adjustment assistance, has been decided by the Congress. This is a policy decision. The Commission cannot take upon itself the right to decide that nobody is entitled to it. Congress knew what it was doing when it passed the law. It had a definite purpose.

Yet, there are members of the Commission who are ideologically opposed, and no matter what the facts are, they will not come out in

favor of an adjustment assistance, and I don't know what we can do about it. They are appointed for 6 years.

The only thing that I can see is to propose changes in the law, in the definition, which are so clear than even they will be unable to avoid it.

Now, I have pointed out some of the things that I thought the Commission has done which are, to say the least, quaint and unfair, but one of the members of the Commission has told tales out of school. He got into a dispute with the other members over a particular case, which he thought was decided one way, and then he woke up one morning to discover that it had been decided another way.

He wrote a letter to the President disassociating himself from that case and saying that he thought that the procedures used in this case were—let's see what his words were: "These reports are inaccurate at the least, and illegal at the most." And he goes into a four or five page letter. I recommend very strongly that you read this full letter. It is attached to the statement. This is a letter written by one member of the Commission criticizing the others.

If I might say, Mr. Chairman, this member of the Commission was just as guilty in other phases of the Commission's activities as his colleagues are in the one in which he is accusing them in this letter.

All right. Now, what do we do? Well, Mr. Chairman, I think the language of the law ought to be revised, and revised considerably.

In the first place, the decisionmaking authority ought not to rest with the U.S. Tariff Commission. They are in no position to really understand this kind of a problem.

When the United States-Canadian Automobile Agreement went into effect, it had an adjustment position, but it was not the U.S. Tariff Commission which was to make this decision—it was the President through a board which he established.

We have had plants organized by the United States Steelworkers which shut down because of the operation of this automobile agreement, and we filed petitions there, and the petitions were approved.

We found the operation of this board to be as wholesome, as honest, as efficient in compliance with the terms of the law as anything that we have had experience with.

We think that a Presidential board, with any kind of a President, would be much more objective, much more fair, much more decent, much more responsive than the U.S. Tariff Commission.

So we have proposed that there be such a board. Now, this was contained in the Mills' 1970 bill, the Trade Act of 1970, which was passed by the House in that year.

We think that the Mills bill proposal as a whole has many good features. There are some shortcomings, which I should like to call to your attention.

For example, it uses the words "significant number of proportionate workers in such firm or subdivision." That is, there must be a significant number of workers affected by imports.

We think that the word "significant" should be eliminated, because we do have situations where only a small number of workers, a few people, are affected. A plant has, for example, a division where it makes many products, and just one of these products happens to be affected by imports, and only 1 percent of the workers may be there.

Just because they represent small numbers, these people should not be denied rights to which they otherwise, under the same circumstances, would be entitled if there were more people suffering. So the word "significant," in our judgment, should be removed.

There are other changes which we would make. For example, we think that the 65 percent of earnings or 65 percent of the national average is far too low for workers.

In the first place, we have to understand, and this is not understood at all, that when workers get 65 percent, they are not getting that 65 percent. They are getting the difference between 65 percent and the unemployment compensation they had received for that time.

There are two points which must be realized about entitlement to benefits. First, the assistance occurs some months or years after the worker was laid off. There is always a time limit involved.

Second, during that period of layoff he was receiving unemployment compensation. Now he gets adjustment assistance. What happens is that the Labor Department certifies him, and then the Government pays back to the unemployment compensation office the unemployment compensation this man had been receiving during that period, and all he gets is the difference. So when we list $25 million in payments, the workers only got about $3 million.

I repeat, when we list $25 million in payments, the workers only got about $3 million. The other $22 million went back to the State unemployment compensation office, and that meant, obviously, that it was the companies, the employers, who were getting repaid, because they got back their merit rating which they had lost when they shut down the plant. The unemployment compensation that had been paid for these people was charged against the employers, so now their payments to the unemployment compensation tax was reduced because of the assistance.

What happened, to put it bluntly, is that this adjustment assistance for workers has been in many cases adjustment assistance for employers, even when the workers petitioned. This is particularly true in those States like Connecticut, where you have high unemployment compensation running for a long period.

So we suggest the 65 percent should be changed. It should be 100 percent. He should get his pay. It should not be limited to 1 year. It should be limited, we think, to a business cycle, a full business cycle, so you have a chance of getting something else, and you will not have a long period of time during which he is getting no benefits at all.

Now, there are two other aspects of it. First, the Fraser bill goes even farther than this. We would, obviously, prefer that.

The other aspect of it is that if you are going to take this avenue, the worker ought to be given the choice of either having his adjustment assistance run retroactively back to the time he was laid off, or prospectively.

What I mean is that if he were laid off, let's say, in January, and the decision were handed down in December, a year had elapsed during which time he had received State compensation, but now he had exhausted those rights. If you insist, as in the current system, that it run retroactively, then all he gets is the difference between State unemployment compensation and 65 percent for this period of 1 year.

If you let it run prospectively, then he gets the adjustment assistance, the full amount, for the full year, if he remains unemployed that long.

We think he should be given this choice.

These, Mr. Chairman, are suggestions which we offer as a result of some 10 years of experience. We think that they are modest, really, considering what the workers have suffered.

It is a serious blow when a plant shuts down, particularly when the worker is in his fifties. He is not going to get another job. He has been dealt a death sentence, and even 3 years' adjustment assistance is a small compensation for the right to hold a job until retirement.

Thank you.

(The prepared statements of Mr. Sheehan and Mr. Bernstein follow:)

STATEMENT OF JOHN J. SHEEHAN, LEGISLATIVE DIRECTOR, UNITED STEELWORKERS OF AMERICA

My name is Jack Sheehan, Legislative Director of the United Steelworkers of America—a Union which represents about 1¼ million workers in the metal making industries of steel, aluminum and nonferrous. We also represent mining operations of those industries and the fabricating plants thereof. I am accompanied by Meyer Bernstein, Director of the International Affairs Department.

The labor movement has, for some time, been urging a change in our foreign economic policy. That policy has been undergoing a critical scrutiny by the labor movement and the results of our review are frightening. The reason for our inquiry has been based upon the realization that our trade policy was not working—not working, that is, in terms of jobs and job opportunities.

We are, of course, acutely aware of the situation in the steel industry where last year over 18 million tons of steel were imported from abroad. This amount of tonnage represented about 18 per cent of domestic consumption. It also represented about $1 billion in lost wages for our members and a whole year's employment for 108,000 steelworkers. Another way of visualizing that amount is to realize that it is more steel than what was shipped by the fourth, fifth and sixth largest American steel companies combined.

Even at that, the figures hide the disasterous inroads which imported steel made in the specialty steel industry.

During the last decade, imports of stainless steel, for instance, rose from about 7,000 tons, or 2.6 per cent of the market in 1959 to 192,000 tons, or 22 per cent of the market last year. In tool steel the penetration is about 15 to 17 per cent. These import levels have been maintained—and even accelerated—despite the voluntary quota arrangement. As a matter of fact, those restraint agreements insofar as the specialty steel industry is concerned were massively violated. Thus, actual imports in stainless steel were 34 per cent over the voluntary agreement level; in tool steel they were 22 per cent over the level (77 percent over in 1970); and in alloy steel they were 61 per cent in excess.

Now, I did not wish to get too statistical since an evaluation of the severity of this import penetration is more properly the responsibility of the Ways and Means Committee. But, I have quoted these figures to indicate the degree of the Steelworkers' concern and to substantiate our contention that our trade policy must be revised.

It is most fitting, therefore, that your committee undertake a review of the impact which a change in our trade policy would have upon our foreign affairs or foreign political policy. Perhaps, more importantly, such a review could provide a course of action in aiding foreign policy to adjust to the changing environment in international trade rather than it being an obstacle to the recognition for the need to reevaluate our trade policy.

Certainly, the two are intertwined. But, I am afraid, there is such a dogmatic aura surrounding the relationship that one is led to believe that any tampering with the current interpretation of what constitutes the ingredients of a freer or reciprocal trade policy must be viewed as an attack upon our foreign affairs policy and as putting in jeopardy the political position—if not the security—of the United States. Perhaps your review can develop some better perspectives.

Now, I realize that the purpose of these hearings is to study the administration of the trade adjustment assistance program, which was originally designed in 1962 to absorb some of the adverse economic impact due to a more aggressive implementation and pursuit of our reciprocal trade policy. But before we comment upon the specifics of that program, I think it is necessary to make some remarks about the underlying assumptions which many hold—especially, our foreign political representatives—about the concept of an adjustment assistance program, even if it were working effectively although we shall indicate later that it has been a failure.

FOREIGN AFFAIRS AND TRADE RELATIONSHIPS

1. Those assumptions are based upon the conviction that foreign political policy considerations should have a priority over our foreign economic policy which tends to become actually its handmaiden.

Any domestic economic injury is expected to be suffered in the interest of our foreign policy. Hence, it is accepted as quite reasonable—and even generous—that adjustment assistance should be considered as an adequate response to those workers who are sacrificed in the pursuit of our foreign policy considerations.

Yet, we question that thinking. We feel that our foreign trade policy should be evaluated on its own merits. If it is found wanting, then remedial economic measures should be taken to correct the imbalances. The type of trade balance which we have results in large part from positive public policy decisions in the form of trade or tariff concessions. But when those governmental decisions prove to be onerous to large segments of the economy, then there should be no hesitation about changing them, even though they may have been made to obtain some diplomatic or political advantage. We do feel that our foreign policy objectives can be obtained through means and policies which are more sensitized to our own domestic economic problems.

Certainly during the period of time when our trade policy resulted in economic growth for both ourselves and our trading partners, our foreign policy objectives could include a further expansion of trading opportunities. Furthermore, the desired goal of internationalism could be pursued through an expansion of trade relationships.

However, within recent years our trade situation has undergone a reversal. In the past few years, we have actually become a deficit nation in our trade balance. In steel, we have been in a deficit position since 1962. As a matter of fact, last year's (1971) steel deficit of $2.06 billion almost alone accounted for the total trade deficit of $2.8 billion.

These imbalances indicate that our trade policy needs to be examined. We cannot continue to pursue the present course because the resulting economic injury is no longer "socially acceptable."

Unfortunately, the prospect of change in the rules of international trade is being resisted and even resented because it would supposedly cause repercussions in our foreign policy relationships. We maintain that our pursuit of internationalism need not be obstructed by an honest evaluation of the economic injury being sustained in this country and by the development of a fairer and more balanced trade relationship arrived at, preferably, through international arrangements. The point we are trying to make is that our trade policy must be scrutinized in terms of its own effectiveness and not in terms of its value as a foreign policy tool.

The key question is whether the American trade policy in the current international climate of either nationalized, subsidized, or protected foreign industries, which are rationalized by foreign governments in terms of their own national interest, can adequately provide an opportunity for our exports and prevent an erosion of our basic industries in terms of our national productive capacity and manpower needs.

Within this context, a simple revamping of trade adjustment assistance, no matter how well intentioned, is meaningless.

FOREIGN ECONOMIC POLICY AND TRADE ADJUSTMENT ASSISTANCE

2. In 1962, our Union accepted the proposition that our trade policy was a successful one, even though then there were rumblings that all was not quite right. But when the economic injury was slight and the economic benefit great, it was proper for the labor movement to raise questions about equity and support trade

adjustment assistance to aid those who were adversely affected by changes resulting from public policy.

The concept of trade adjustment assistance was a satisfactory tool for compensation because we thought our trade policy was working. It was a new tool because prior to 1962 the only relief available to those injuried by imports was more protection—which, even then, was not forthcoming. After 1962, escape clause relief was still possible but so also was economic compensation which even the worker could obtain. Perhaps a more callous description of the program is to categorize it as one in which the workers' injury—his unemployment—was bought off with extra unemployment compensation benefits, although there was the anticipation that retraining and relocation in a supposedly expanding economy would make his loss short-lived.

Thus, trade adjustment assistance was desirable, equitable and possible because injury was supposed to be minimal.

But, now the injury and prospective injury to workers overshadow the trade-off in terms of adjustment assistance. Our trade policy now works to the benefit of those multinational corporations which invest abroad or in favor of those countries which expand their productive capacities in order to seize an even greater share of our market, a share which is not proportionate with our growth in demand. It is that message which we are trying to deliver through the instrumentality of the Hartke-Burke bill. It is that message which we would like to deliver today. A trade adjustment assistance program—even if most effective—cannot be an adequate substitute for an effective trade policy no more than can a federal unemployment compensation system be substituted for a vigorous economy. Actually, both of these compensatory systems will work only if we have a vital trade and domestic economic policy. But, don't talk to us about compensation when what we want are jobs, not relief checks—even though pending bills will make those checks a little more accessible.

We concur, therefore, in the AFL–CIO's position that "trade adjustment assistance is an idea whose time has passed." Unfortunately, too, its time has passed while it was left aborning. Mr. Meyer Bernstein, of our International Affairs Department, has attempted on many occasions to obtain relief for our members from the program. He will relate to you his experiences. While we certainly would like to liberalize the trade adjustment assistance program so that these experiences will not be continued, and he will comment upon specifically-needed approvements, we remain convinced that a new trade policy—not solely a trade adjustment assistance policy—is needed.

STATEMENT OF MEYER BERNSTEIN, INTERNATIONAL AFFAIRS DIRECTOR, UNITED STEELWORKERS OF AMERICA

ADJUSTMENT ASSISTANCE UNDER THE TRADE EXPANSION ACT OF 1962

The adjustment assistance provisions of the Trade Expansion Act of 1962 was the most universally supported section of the bill. Free traders, protectionists, and everyone between the two extremes were all of the same opinion regarding this clause. No matter whether one welcomed or opposed imports, there could be no doubt that liberalization of trade would bring about increased imports, and that increased imports would injure some workers. These people would become, as it were, the sacrificial lambs for all industry. Other workers, perhaps more, would gain as a result of the legislation. It was, therefore, felt that the ones who suffered should receive at least a minimum of reimbursement. The then Secretary of Labor estimated that some 18,000 workers a year would lose their jobs following the liberalization of our trade policies. These 18,000, he insisted, should not have to bear the full cost alone; hence, the adjustment assistance program.

Adjustment assistance, however, turned out to be a dead letter—at least for the first seven years following passage. The language itself seemed clear enough; adjustment assistance was to be paid in cases where ". . . as a result in major part of concessions granted under trade agreements, an article like or directly competitive with an article produced by such workers' firm, or an appropriate subdivision thereof, is being imported into the United States in such increased quantities as to cause, or threaten to cause, unemployment or underemployment of a significant number or proportion of the workers of such firm or subdivision."

Nevertheless, for the first seven years of the Act's existence, every single

worker's petition was rejected by the United States Tariff Commission. During that time, membership and staff of the commission continuously changed, but the attitude remained the same. Then, suddenly, there was a total reversal. In September of 1969, on behalf of workers in three plants of two major steel companies, I filed, simultaneously, a series of petitions. In these petitions I decided to take an entirely different approach and tried to explain what Congress had in mind and why injured workers should be found eligible for the benefits which the congress had solemnly proclaimed their due. The United States Tariff Commission approved all three.

Frankly, I cannot be sure just why, any more than I could explain on the basis of the language of the commission, why it rejected my first petition which I had filed just a few months after the effective date of the law. As a matter of fact, I thought then and I think now that my first petition was actually stronger than the second group of three. My first petition was in behalf of iron ore miners working for the United States Steel Corporation. U.S. Steel decided to close its mines in Alabama and to substitute iron ore from its own mines in Venezuela for the ore which had previously been extracted locally. In other words, here was a pure and simple case of imports causing the shutting down of a domestic mine. Yet, the petition was rejected as were all other petitions filed by other unions until November 1, 1969.

We were, of course, pleased that at long last the United States Tariff Commission was willing to recognize the intent of Congress. We hoped that this would inaugurate a new era—as indeed it did—but only for a limited time. Since the 1969 approvals, I filed an additional 13 petitions. Those which were considered by the commission in 1970 were approved; and those which it received in 1971 were, for the most part, rejected.

To paraphrase the poet, the commission moves in a mysterious way its labors to perform. For the Lord, at least, there is an authorized exegesis. Unfortunately, there is no such guide available with respect to the commission. Normally, a government board sets forth the reasons in a comprehensive decision. Precedents and principles are established. One can reasonably foresee the outcome. This is not true as far as the United States Tariff Commission is concerned.

Probably a partial explanation lies in the fact that the commission bases a large part of its determination upon confidential material. But whatever the motive, one does not get wiser by studying Tariff Commission decisions. In fact, there seems to be little correlation between the decision and the factual basis upon which it rests. Reading the report, one might well sometimes be reminded of truncated ancient statutes which have been mismatched in restoration.

The United Steelworkers of America has had as many cases before the United States Tariff Commission as probably any other union—certainly we have had more than most. Since the beginning of 1971, unfortunately, our experience has been generally frustrating. In my opinion, there has been no change in circumstances; the workers on whose behalf we filed petitions in 1971 were just as entitled to benefits as those who were fortunate enough to have suffered earlier. The only change is in the interpretations by the commission.

Frankly, I think that the commission got frightened by the prospect of an upsurge of petitions and decided to clamp down lest it be accused of squandering government money. In his testimony back in 1962, the then Secretary of Labor estimated that 18,000 workers a year would be granted benefits under this provision. In the whole ten years since the law was passed, only a few more than that number have been found eligible. Or, to be more specific, the secretary estimated 90,000 in five years. The commission has found for 23,000 in just under 10 years.

Before offering our suggestions as to what new legislation should contain, let us review the shortcomings and faults and frustrations we have found in our efforts to secure compliance with what we regarded as the intent of the Congress.

A. Operation of the Law

1. Language. The gnat which the commission seems to gag on is to be found in the words "in major part." What constitutes a rise in imports that result "in major part" from trade concessions? The first firm fact we have to deal with is that an employer has either closed down a plant or laid off a substantial number of workers. How can we tell what motivated that decision? The second firm fact we have is that in practically every case which we or any other union

filed, we offered evidence that in the company's own opinion its decision was based upon the increased imports against which it could no longer compete. Those increased imports are the third firm fact we have. A fourth firm fact is that a trade concession or concessions were made prior to the increase in imports.

Now, it is simple enough to prove that management decided increased imports were the cause of its woes. Normally, there is a long period of soul searching and complaining against increased imports, and then, when the decision is made, the employer notifies the union why it is taking this action. It shows its workers how imports have affected sales and, therefore, their jobs. But we have no way of reading the minds of either the exporters or the importers.

Why did imports increase? There may have been many reasons, but obviously at least one reason was the trade concession; that is, the reduction in or binding of tariffs. How much of a role did the reduction in tariffs play compared with other factors such as increased production facilities, the attraction of the American market, the need to unload goods which could not be disposed of domestically because of a temporary recession, lower employment costs, export incentives such as exemption from the value added tax, and the like?

The commission does not go into these aspects in any detail. Nor, for that matter, do the petitioners, except to point out that the surge in imports generally follows, but not necessarily immediately, a trade concession.

In the first case we filed on behalf of our miners, I tried to explain to the commission that it was the trade concession; namely, the binding of the duty-free status of iron ore that gave the United States Steel Corporation the assurance it needed to make a several-hundred-million dollar investment abroad. Without that trade concession, developing iron mines in a dictatorship-prone country would have been a risky business indeed. Management well knew that shutting down mine after mine in the United States after opening new mines abroad would lead to workers' resentment and pressure for protection against the foreign ore. We think the company regarded the trade concession as the *sine qua non* of its foreign program, but, as I say, we apparently did not impress the Tariff Commission with this line of reasoning.

In 1971, we filed a petition on behalf of the rod mill workers at the Portsmouth Steel Division, Detroit Steel. In our opinion, this is the clearest case of all those we have presented to the commission. Yet, the commission rejected the petition. To be sure, we do not know exactly why, but certainly one of the considerations is the competibility of the company against imports. True, the equipment at Portsmouth was largely obsolete, but the records of the company will show that it had considered modernizing its weld mill and rejected the proposal on the grounds that foreign competition would still remain too strong a factor to overcome. What, then, caused the shutdown? The commission thought obsolete equipment. But if it were not for foreign competition, the equipment would not have remained obsolete.

This leads to a general problem; namely, that of marginal producers.

All companies are not equal. Wages may be the same, but productivity, materials costs, transportation and the like vary enormously. Obviously, it is the marginal producer which is hurt first by imports. It is no argument to say that other companies can survive. The "major factor," concatenation, offers difficulty in a related set of circumstances.

We all know the proverb about the last straw on the camel's back. The trouble is found in analyzing it. Let me change the simile a bit and use one that I employed in my arguments in the first petitions the commission approved. I compared the fact of imports with adding weights on a spring. Up to a certain point, any weight put on a spring would have no effect on the spring's ability to return to its original shape, but once we exceed that elastic limit, even by a few ounces, the spring takes a set; that is, it becomes deformed and no longer snaps back.

What, then, can be blamed for this? Obviously not the total weight up to the modulous of elasticity, because this load could hang there almost indefinitely without affecting the wire's springiness. It was those additional few ounces beyond that amount which caused the deformation even though those few ounces in themselves were negligible. So, going back to our steelworkers' petition, the company might have had problems with low productivity, with increased materials costs, with discriminatory transportation costs, with increasing

power costs and taxes and the cost of borrowing money. Yet, it had faced all those problems in the past and could continue to exist with them, but it could not live with them *and* with increased imports, too. I am not sure that the Tariff Commission, as presently constituted, understands this. I do not think that it should be necessary to go into such convoluted reasoning.

The concatenation of "major part" in trade concessions should be eliminated. The mere fact of increased imports is sufficient justification for adjustment assistance.

2. Proof or Evidence. I have already indicated some of the difficulties we have in reading the minds of people who make decisions which lead to the injury. There are other difficulties which are compounded by some curious practices of the Tariff Commission.

In other countries—Germany, for example—the employer must furnish the union with full information regarding any decision involving workers. In fact, they cannot lay off anybody beyond a certain number without documenting the need for it and presenting this paper, first to the union or rather the works council and then to the State labor office.

There is no such elaborate exchange of information in the United States. Management may tell us that imports are the cause of the lay offs, but generally will furnish little additional detail. Sometimes when an employer wants to underline the damage to which he is exposed because of imports, he will cooperate with us and give us all the data we need to supply to the United States Tariff Commission. The support I received from the United States Steel Corporation and Armco Steel Corporation were of tremendous value in obtaining the first three successful decisions.

But back in 1963, when I filed for U.S. Steel's iron ore miners, the company declined to cooperate. In fact, it even suggested we withdraw the petition. The difference, of course, was that in iron ore, the steel companies themselves are the exporters/importers, while in steel products it is their competitors who engage in this business. Recently, I have had two cases involving somewhat similar products before the commission. In both cases the commission asked for additional information, which it well knew could only come from the company. In one case, Baldwin-Lima-Hamilton, the company readily furnished us all the answers we needed. In the other case, we experienced delay after delay from a multilayered conglomerate.

There are many objections to this kind of procedure. First, it causes an unnecessary delay. Even worse is the fact that we are made dependent upon the good will of management. If we get along well with our employer and they have no other reason for opposing our petition, then they will give us—or at our request turn directly over to the commission—the information requested. If, on the other hand, they are hostile or suspicious or ill-informed, then our people must suffer. I still get goosepimples when I think of the troubles we had when I filed for adjustment assistance while we were engaged in an NLRB representation fight with a company.

Now, the commission has subpoena power; it has a staff; it can get this information directly from the companies; it need not go through us or ask us to obtain it; it will, under any circumstances, contact the company and discuss the petition with management. I might add that much of the data requested seems to me at least, to be irrelevant. Furthermore, we are never given an opportunity to rebut anything said by management. We are not even informed of any opposition statement by a third party. Compare the commission's practices with those of the National Labor Relations Board. There, the union need furnish only a bare minimum of information concerning matters on which it has no first-hand knowledge; the real investigation is made by the board's own staff.

3. Notification Duty. I make a practice of reading all the releases of the United States Tariff Commission. One day last year, I found one telling of the approval by the commission of an employer's petition for adjustment assistance. The name of the employer had a familiar ring. In checking our files, I found that, indeed, it was a company under contract with the United Steelworkers of America. I then obtained a copy of the decision. Among the chief reasons for granting the employer's petition was that it had been compelled to lay off employees. Imagine, the company is injured by imports, it lays off employees, it then files a petition for benefits accruing only to itself, and it never informs the union or its employees

of what it is doing. The Tariff Commission makes an investigation, confirms that employees have been laid off, and grants the company's petition for assistance. It does not occur to either the employer or the commission to notify the workers that they, too, are entitled to benefits under exactly the same circumstances and for the same reasons. If I had not recognized this company as one of our collective bargaining partners, then only the employer would get benefits where workers have been hurt not only equally, but more grievously. Wasn't there even one man in the Tariff Commission who thought that maybe the workers ought to be told that they are entitled to something? And shouldn't this be a requirement? I have recently been the recipient of a notice that I had overpaid my income taxes. I had not asked for an adjustment. The D.C. government took the initiative itself. Couldn't a government agency concerned with dispensing of benefits decreed by the congress show equal regard for an individual? How many other decisions opening the way to entitlement have remained dormant because the commission did not notify the beneficiaries? This can happen not only under petition for adjustment assistance, but also in the case of an escape clause action, for example.

An employer association, let us say, requests an escape clause action. The Tariff Commission, upon investigation, finds affirmatively on the ground that workers have been laid off, and so on. Now the workers in the industry would be practically automatically covered providing they are informed of their entitlement and file for such with the Labor Department. Normally, however, the workers do not know anything whatever of either the petition or their rights. I had a sample of this just recently. The marble and travertine industry obtained favorable consideration of its petition for an escape clause action. I had to communicate with each local in my union employed in the industry and find out from them whetner there had been lay offs at their particular quarry. I then filed with the Labor Department a simple request for adjustment assistance, which was granted. But only a part of the marble workers are organized in my union. Marble is not our major industry. I do not know how to contact the other workers, so they have not yet been told and there may be many a man who lost his job because of imports and who is receiving no benefits to which he is entitled. When a union files a petition with the commission, the commission always checks with the employer. This is right and proper. But when a firm files a petition, the commission never contacts the union even if the lay offs of its members is one of the prime considerations involved in coming to a decision. Why the discrimination?

4. Filing Date. The Trade Expansion Act of 1962 contains the following:

"The report of the Tariff Commission of its determination under subsection (c) (1) or (c) (2) with respect to any firm or group of workers shall be made at the earliest practicable time, but not later than 60 days after the date on which the petition is filed."

This would seem clear enough: within 60 days of filing, the commission hands down the decision and, indeed, this was the practice in the first four petitions my union filed. In each case, within 60 days, we got our answer.

That's all over now. The commission has apparently given a new meaning to the word "filed." They have replaced "filed" by "accepted." In other words, they do not start counting the 60 days until they "accept" a petition. It, therefore, can rest in the commissions desk drawer for months before it is "accepted." During this interval, some pretty weird things can happen. Generally, the commission sends out letters signed by its secretary asking for clarification or for additional information. Sometimes, the letters make no sense whatever. Once, I called up the secretary to ask him what he meant in his last letter to me. He answered that he didn't know; he had not written the letter, he had only signed it. Well, who wrote it, then? The general counsel's office. So I asked to be transferred to the general counsel. He would not take my call and never rang back.

This led to an exchange of correspondence generally in which I pointed out that everything they asked for was already in the original petition, and then they would come back thinking of something new, but not contributing, as far as I could see, to the body of information upon which a decision could be made. At any event, several months were lost during which there was a change in the membership of the commission, and the petition was rejected. This was the one which, on its facts, I thought was the strongest of all those I had filed.

5. Definition of Article. The entitlement to benefits refers to "an article like or directly competitive with an article produced by such workers' firm . . . ." The Congress obviously left the definition somewhat loose because, in this competitive world, it is not always identical articles which affect one another. It is a "like" article or a "competitive" article that can sometimes be involved.

The lawyers of the Tariff Commission, however, seem to take a different view. In any petition which labor files, we must exactly and precisely specify to the last detail what we are claiming has caused the problem. Yet, the whole body of information is available to the Tariff Commission and unavailable, in many instances, to us.

The *Tariff Schedules of the United States, Annotated,* is issued by the United States Tariff Commission.

If an article is some simple thing that is clearly specified in the TSUSA, then we can look it up and identify it properly. But what if it is not listed there as such? Just where it fits in is a matter of conjecture. It would seem that if we explain to the commission what our people manufacture, that ought to be enough. The Tariff Commission, which deals with such matters could find what number in the TSUSA corresponds to it. What I usually do is to obtain copies of the manufacturer's product specification publications giving all the information at hand on what had been produced and upon which production has been stopped. Yet, the commission's lawyers are not satisfied with this. Instead of going next door to their own experts, they write back to me and ask me for information which, then, I have to get from them through the intercession of friends in the government. It is a silly process and it is a time-consuming one.

6. Trade Concessions and Import Data. The commission insists that we furnish information on trade concessions and import data. But it is the commission itself which has all this information. Obviously, a union does not compile its own trade statistics nor does it keep abreast of all the concessions made in the various GATT meetings. So, again, the lawyers of the commission will hold up action on a petition to ask the petitioner to furnish them with information which he will then obtain from their colleagues in adjacent offices.

7. Objectivity. The members of the commission are to carry out the purposes of the law in a neutral fashion; that is, they are supposed to be unprejudiced and measure each petition against the yardstick of the legislation's requirements. But in the case of at least one member of the commission, his neutrality seems to be one of a negative nature. He is against practically all petitions. The law has been in effect now for almost 10 years. It is difficult to conceive how, with over $300 billion in imports, a reasonable man could find only less than a handful of cases fulfilling the standards of the Act. This gentleman simply does not believe in adjustment assistance. He undoubtedly has reasons which are perfectly satisfactory to himself, but may I respectfully suggest that that question is moot. The congress had decided that when the appropriate conditions are met, adjustment assistance should be awarded. The duty of the commission is not to determine whether adjustment assistance is good or bad, but rather to determine whether, in given circumstances, the entitlement requirements contained in the legislation are met.

B. Proposals

1. Decision-Making Authority. In view of our 10 years' experience with the United States Tariff Commission, we cannot in good conscience entrust to it the responsibility of deciding petitions. There is simply too much of a gap between fact and interpretation.

We propose, therefore, that the ultimate power to determine eligibility rest with the President of the United States. This is, in fact, the proposal of the Trade Act of 1970 or the Mills bill. We suggest that this be the basis of any new legislation. The Tariff Commission would, of course, still have the responsibility of ascertaining the facts and reporting to the President. We would assume that if the language of the Mills bill is contained in the new legislation, this would also remedy several other defects of the present administration of the law. It would, for example, put an end to the unconscionable delays and the quaint interpretation of filing, for, in a later section (5), it is prescribed that the Tariff Commission report to the President "shall be made at the earliest practicable time, but later than 60 days after the date on which it receives the request of the President."

The Mills bill language also eliminates our most difficult stumbling block under current law; namely, "the result[ing] in major part of concessions" proviso. Instead, the Mills bill contains the following:

". . . the President shall determine whether an article like or directly competitive with an article produced by such workers' firm, or an appropriate subdivision thereof, is being imported into the United States in such increased quantities, either actual or relative, as to contribute substantially (whether or not such increased imports are the major factor or the primary factor) toward causing or threatening to cause unemployment or underemployment of a significant number or proportion of the workers of such firm or subdivision."

This is an enormous improvement, but we would suggest a slight modification. We think the word "significant" in the phrase "significant number or proportion of the workers of such firm or subdivision" should be eliminated. It is perfectly conceivable that only a small number of workers in a plant might be affected. They could be manufacturing some article which might be overwhelmed by a flood of imports. The proportion of workers involved in that firm or subdivision might be very small, but the effect on those particular employees would be very great. Suffering should not be ignored simply because it is not widespread.

To help the commission in its investigation, the President "may specify the particular kinds of data which he deems appropriate." With this, we would expect an end to useless paper shuffling. Earlier, I have pointed out that the lawyers in the commission have held up accepting petitions until they received certain additional data from me although they well knew that I could get this data only from the company.

I later learned that in its investigation, the commission's staff would ask the company for the same data all over again. So, this time spent in correspondence with me was entirely wasted.

The Automotive Products Trade Act of 1965, passed in conjunction with the United States-Canadian Automotive Products Agreement, also had an adjustment assistance provision.

But determinations were made by an Automotive Agreement adjustment assistance board under the chairmanship of the Secretary of Labor, not by the Tariff Commission. The board was a model of efficiency, good sense, and equity. Responsibility was placed where it belonged. The forms to be filled out required no more than the minimum of what was necessary to institute a proceeding. One instruction contained therein is worth repeating here:

"Complete answers to these questions are not mandatory; however, any information which is available to the petitioner or can be obtained from his employer should be submitted."

And the board functioned very well indeed.

The Mills bill contains a new sentence:

"A Certification of this paragraph shall apply only with respect to individuals who are, or who have been, employed regularly in the firm involved within one year before the date of the institution of the Tariff Commission investigation. . . ."

This is better than the present provisions, but still leaves room for an inequity. Current regulations require a certain number of weeks of employment. The trouble is that some workers have been excluded from benefits because either of sickness or of accident leave; they remained connected with the company enjoying benefits either under our contract or under workmen's compensation, but still they have been found ineligible. We suggest, therefore, that the words "employed regularly" be changed to something like "carried as employees." This would remove a most unfortunate unintentional unfairness.

Another amendment we would like to offer to the Mills bill language is a provision dealing with the period covered. Under present law, by the time a petition is approved by the Tariff Commission and certification completed by the Department of Labor, workers have been unemployed for many months during which time most of them have received unemployment compensation. The adjustment assistance, therefore, became, in whole or in part, retroactive. But in many instances, the workers were still unemployed and were no longer eligible for U.C. All they received in adjustment assistance, then, was the difference

between their U.C. and adjustment assistance for a completed period. If their U.C. and adjustment assistance eligibility shall have expired, they received nothing more. We propose that the workers be given the choice: either of letting, as in the past, their adjustment assistance apply retroactively or, if they choose, letting it apply prospectively. The cost to the government would be practically the same, but the advantage to the workers would be considerable. What it would mean, of course, is that a worker who became permanently unemployed would have received unemployment compensation from the time he was first laid off to the date of certification. From that time on, he could receive adjustment assistance through the end of his eligibility.

As it now stands, adjustment assistance has often been more of a boon to the employer than to the laid off worker.

The government paid back the U.C. the worker had received. This was then credited to the firm's merit rating. All the worker got was the difference between U.C. and adjustment assistance. Under the U.C. extension, it can run as long as adjustment assistance. Obviously, then, they should not be concurrent but rather tandem: unless, of course, a worker shall have found another job.

2. *Amounts of Benefits.* The present 65% of the workers average weekly wage or 65% of the average weekly manufacturing wage, whichever is less, is entirely inadequate. Under some collective bargaining contracts, workers laid off for operational causes receive a total of up to 95% of their earnings. Certainly a worker who loses his job as a result of a trade policy of his government should be entitled to no less. Note that the worker is now only entitled to 65% of the national weekly manufacturing wage as a maximum. In some high wage industries, this turns out to be little more than his U.C., and as explained above, under such circumstances the benefit is more to the employer than to the laid off worker. Obviously, this is not the intention of the law. We suggest, therefore, that adjustment assistance be set at 100% of earnings less, of course, the savings in taxes and the costs associated with going to work. Laid off employees should also be provided with a continuation of certain fringe benefits such as unimpared company insurance coverage.

If the company remains in business, this should be financed by the employer. If not, the worker should be covered by some other plan such as medicare, financed by the government. Finally, the relocation allowances should be extended to unmarried workers.

3. *Duration of Benefits.* Duration under the present law is for 52 weeks or under conditions of age 60 or over or participation in a training program, a maximum of 65 weeks. We consider this, too, inadequate. In our opinion, the duration ought at least to include a full business cycle to give the laid off employees an opportunity to find another job. We suggest three years with a special provision for older workers—those in their 50's who would find difficulty in obtaining other employment under any circumstances. For them, the duration should run until they become eligible for social security.

Let me close on a more hopeful note. To practically the same extent that our experiences with the United States Tariff Commission were frustrating and confusing, our collaboration with the Office of Foreign Economic Policy, Bureau of International Labor Affairs, Department of Labor, and particularly its chief, Edgar Eaton, was satisfying, close and always clear. This Office is responsible not only for certifying workers who may be entitled to adjustment assistance under the Trade Expansion Act of 1962, but also handled adjustment assistance under the Canadian-American Automobile Treaty provisions. Not once in the more than half a dozen years' association have we had reason to make the slightest complaint. Mr. Eaton and his associates eagerly provided us with every facility and aid to obtain all the benefits to which our people were entitled. They never went beyond the law, but they also prevented us from falling below it. If we had missed something to which our members were entitled, they would call our attention to it. Our confidence in them was so great that when they told us that, in their opinion, we were wrong in a particular instance, we would accept their judgment and drop the claim. There never was, as far as I could see, a trace of political or other pressure. If the United States Tariff Commission had the devotion, the decency, the application and sense of duty of the Office of Foreign Economic Policy of the Department of Labor, there would be no need for my appearing before you today.

ADJUSTMENT ASSISTANCE CASES, UNITED STEELWORKERS OF AMERICA

Company	Location	Product	Number of workers	Date filed	Date decided	Decision and vote	Remarks
United States Steel Corp., Tennessee Coal & Iron Division.	Red Mountain, Ala.	Iron ore	650	May 1, 1963	June 28, 1963	Rejected, 5 to 0	Company opposed petition.
Armco Steel Corp.	Ambridge, Pa.	Welded pipe and tubing	350	Sept. 3, 1969	Nov. 3, 1969	Approved, 5 to 1	Full company cooperation.
United States Steel Corp., American Bridge Division, Shiffler Transmission Tower Plant.	Pittsburgh, Pa.	Transmission towers	530	do	do	do	Do.
United States Steel Corp., American Bridge Division.	Los Angeles, Calif.	do	247	do	do	do	Do.
Bethlehem Steel Corp., Pinole Point Works.	Pinole Point, Calif.	do	258	Jan. 2, 1970	Mar. 16, 1970	do	Do.
D. H. Baldwin Co.	Cincinnati, Ohio	Grand pianos	195	Aug. 27, 1970	Nov. 13, 1970	Approved by Labor Department.	Filed with Labor Department on basis of Presidential Proclamation 396, "Modification of Trade Agreement Concession and Adjustment of Duty on Certain Pianos."
International Silver Co.	Wallingford, Conn.	Stainless steel flatware; stainless steel holloware.	450	Sept. 15, 1970	Dec. 11, 1970	Approved, 4 to 0	
Do.	do	do	450	do	do	Approved, 3 to 1	
Continental Can Co.	Chicago, Ill.	Can sealing machines	335	Dec. 28, 1970	Mar. 16, 1970	Rejected, 5 to 0	
Carpenter Technology Corp.	North Brunswick, N.J.	Stainless steel wire	65	Feb. 9, 1971	Apr. 9, 1971	do	
Detroit Steel, Portsmouth Division	Portsmouth, Ohio	Rods and wire, etc.	310	May 4, 1971	Aug. 27, 1971	Rejected, 3 to 0	
North American Rockwell, Murray Gin Division.	Dallas, Tex.	Cotton gins	420	July 21, 1971	Aug. 18, 1971	Rejected, 6 to 0	Joint petition with IAM. Company uncooperative. Commission refused to accept petition.
Utica Cutlery Co.	Utica, N.Y.	Stainless steel table flatware	100	Aug. 25, 1971	Dec. 17, 1971	Approved, 6 to 0	Worker petition followed approval of employer petition.
American Zinc Co.	Dumas, Tex.	Zinc	380	Sept. 1, 1971	Nov. 1, 1971	Rejected, 6 to 0	Full company cooperation.
Baldwin-Lima-Hamilton, Industrial Equipment Division.	Eddystone, Pa.	Hydraulic turbines and hydraulic extrusion and hydraulic forging presses.	1,500	Dec. 15, 1971	Apr. 17, 1972	Rejected, 6 to 0	
Abex Corp., Denison Division	Columbus, Ohio	Iron and steel hydraulic valves and parts.	200	Jan. 5, 1972			
Vermont Marble Co.	Rutland, Vt.	Marble	16	Mar. 16, 1972		Approved	Filed directly with Labor Department on basis of Presidential proclamation for marble industry.

OFFICE OF COMMISSIONER WILL E. LEONARD, JR.,
U.S. TARIFF COMMISSION,
Washington, D.C., November 11, 1972.

Attached is a copy of the letter I have today sent to the President describing the irregularities that I believe took place in the investigations conducted by the Tariff Commission under the Trade Expansion Act of 1962 with reference to the adjustment assistance petitions filed by the Bibb Manufacturing Company, a textile firm with headquarters in Macon, Georgia, and by the workers at the Bibb Company. I have informed the President that I wish to be disassociated from the reports to him of those investigations made by the Commission. In an effort to make the record of the Bibb investigations more complete and not to conceal relevant material from the interested parties or from the general public, a copy of my letter to the President is being transmitted to all who have received or who will receive the Commission reports or press releases in the instant investigations.

U.S. TARIFF COMMISSION,
Washington, D.C., November 11, 1972.

The PRESIDENT,
The White House,
Washington, D.C.

DEAR MR. PRESIDENT: This is to inform you that I disassociate myself completely from the November 9, 1971 reports to you by the U.S. Tariff Commission of Firm Investigation No. TEA–F–31 and Worker Investigation No. TEA–W–112, relating to the Bibb Manufacturing Company, Macon, Georgia, and its workers and conducted under Section 301(c)(1) and 301(c)(2), respectively, of the Trade Expansion Act of 1962.

Those reports are inaccurate at the least, illegal at the most.

The reports state that "the Commission finds (Commissioners Leonard and Young dissenting) that articles like or directly competitive with yarns, fabrics, and other articles . . . produced by the Bibb Manufacturing Company, Macon, Georgia, are, as a result in major part of concessions granted under trade agreements, being imported into the United States in such increased quantities as to cause, or threaten to cause, serious injury to that firm or the unemployment or underemployment of a significant number or proportion of its workers." In other words, according to the reports, the six-member Commission, by a 4 to 2 vote, found Bibb and its workers *eligible* to apply for the various forms of assistance permitted under the Trade Expansion Act of 1962.

Yet at the last meeting of the Tariff Commission at which all members were present and voting on the two Bibb cases (a meeting of November 2, 1971) the draft minutes show with respect to both the firm and the worker cases: "the Commissioners voted as follows:

"Commissioner Moore: Affirmative.
"Commissioner Sutton: Affirmative.
"Commissioner Young: Negative.
"Commissioner Leonard: Negative.
"Chairman Bedell: Negative.
"Vice Chairman Parker: Negative."

Thus, the vote was in fact a 4 to 2 vote finding Bibb and its workers *ineligible* to apply for adjustment assistance. The reports were prepared along those lines and a press release (approved by all Commissioners) which stated those results was mailed November 8 to about a third of the 1,000 out-of-town individuals and organizations who receive copies of all Tariff Commission notices.

How then did the opposite result come out in the November 9 reports to you and in a November 9 press release accompanied by a notice cancelling the November 8 release? Apparently, five of the six Commission members met on the morning of November 9 with the intention of changing the outcome of the previous vote. According to the draft minutes of the November 9 meeting, Commissioner George M. Moore received unanimous consent to consider the Bibb votes open "so that any Commissioner who wishes to change his vote may do so, without prejudice to the votes of any other Commissioner." The Commissioners then indicated their decisions concerning changes in voting. Commissioners Moore, Glenn W. Sutton, and J. Banks Young each was recorded as "no change." Chairman Bedell and

Vice Chairman Joseph O. Parker each was recorded as "changed her (his) vote from negative to affirmative."

The draft minutes say further:

"Chairman Bedell and Vice Chairman Parker wished the record to show that they changed their votes on the basis of corrected information which they received at 4:30 p.m. on November 8.

"Chairman Bedell requested that the record show that, although Commissioner Leonard was absent from the meeting, the Commission considered his previously recorded vote as being counted and standing."

Of course, the Commission can meet subsequent to a vote to change that vote but the rule at the Commission, as in many voting bodies, is that for the vote of a Commissioner to be recorded, the Commissioner casting that vote must be present at the meeting. There is no proxy voting. The consequence of this rule is that, if a Commissioner who has voted on a matter at one time is not present at a subsequent vote on the same matter, the first vote is in effect lost and he is not recorded as having participated in the final disposition of the matter.

Applied to the situation at hand, if the November 9 meeting of the Commission could make a decision on the Bibb cases and the vote at that meeting were valid, I who was absent (and who had not received official notice of the meeting) cannot be recorded as having voted in the final disposition of the cases, no matter how desirous were my fellow Commissioners of affording me that privilege.

Futhermore, because of the manner in which the draft minutes of that meeting are worded, there is doubt whether a valid vote was cast by Commissioners Moore, Sutton, and Young, the vote for each of whom is "no change." That is not an affirmative nor a negative vote. Therefore, rather than there being a 4 to 2 affirmative vote at the meeting on which the finding in the reports is based, the vote is no more than 4 to 1, with no vote by me; or perhaps there is no vote at all, since only the Chairman and Vice Chairman seem to have cast votes in the manner called for and 2 Commissioners voting of 6 are not enough to dispose of the cases.

I have serious doubt, however, that any legal vote could have been taken at a meeting on November 9, even if all Commissioners had been present and had cast their votes in the usual manner. The deadline for reporting the results of the worker case to you was November 8, and the deadline for reporting the results of the firm case to you was no later than November 8 and perhaps earlier. Thus, any action taken after November 8 may well have been outside the law.

The law—the Trade Expansion Act of 1962—states that "the report of the Tariff Commission of its determination . . . with respect to any firm or group of workers *shall be made* at the earliest practicable time, but *not later than 60 days* after the date on which the petition is filed" (emphasis supplied).

The Bibb firm petition was filed August 30, 1971. The report by the Tariff Commission was due 60 days after August 30, 1971, or by October 29, 1971. No such October 29, 1971, date was met by the Commission. Instead, the Commission wavered back and forth. The Bibb worker petition had been filed September 9, 1971, and the report on it to you was due November 8, 1971. At a meeting on September 28, 1971, and again at a meeting on October 21, 1971, an unsuccessful attempt was made to consolidate the two investigations with a deadline of November 8 to be established for both investigations.

On October 22, the Commission agreed to vote on the firm case as soon as possible, by October 28 or 29 at the latest, and a letter would then be dispatched to you reporting the determination, but with opinions and other information to follow. The Commission on Ocober 22 was thinking that its statutory obligations would be properly discharged by following the above described procedure.

On October 28, the Commission agreed to vote on the Bibb firm case on October 29 and to submit the full report—determination, opinions, all information—that day. This would surely conform to the legal requirement.

But on October 29, the Commission reversed itself again and voted to defer voting on the firm investigation "until next week, at which time the vote will be taken on both (firm and worker) investigations."

That brings us then to the November 2 meeting where the 4 to 2 negative determinations were made in both cases. By that time the Commission's action in the firm case may have been illegal since it was past the 60 day deadline. However, the provision in the law authorizing the Commission "in order to expedite the performance of its functions" to "consolidate proceedings before it" clouds the issue, but there is certainly nothing in the law authorizing the Commission to go past the later date in reporting the results of consolidated in-

vestigations. In this case, the later date was November 8, and thus my doubts on the legality of the change in votes on November 9 and the reporting to you on November 9.

But why was it necessary to have a new vote on November 9 and compound an already questionable procedure in so far as reporting the Bibb firm case was concerned? According to the draft minutes of November 9, "Chairman Bedell and Vice Chairman Parker wished the record to show that they changed their votes on the basis of corrected information which they received at 4:30 p.m. on November 8."

What is that "corrected information"? It is not in the report issued November 9. That report is the same as approved by a majority of the Commission at a meeting on November 4, 1971. If there were "corrected information" of such a nature that it changed two Commissioners' votes from negative to affirmative, should it not have been put in the report to you? Should it not have been made available to other Commissioners? It was not made available to me. Perhaps, if it had been, I might have wanted to change my vote from negative to affirmative, too.

Apparently, when this "corrected information" became available at 4:30 p.m., November 8, there was a desire on the part of some Commissioners to change their vote. I was made aware of this desire after the closing hour of 5:15 p.m. on November 8, when, on my way out of the office and under the assumption that the report had been transmitted to the President, I was called to what was supposed to be a Commission meeting. I said then that the attempt to change votes was improper and not timely and I would not vote again. Besides, one Commissioner was absent; and, under the Commisison's rule, his previously cast vote would have been nullified by a later vote.

Although I was not officially notified on November 8 of the withholding of the report and of the meeting to be held the next morning to change votes, I feared this improper tactic and thus I instructed that my opinion in the two cases be transmitted to the Departments of Commerce and Labor (as is the normal procedure called for under Executive Order 11075) on November 8 to comply with the statutory deadline. My opinion was so transmitted and from then on the actions in the two Bibb cases taken on November 9 by the Commission were not expressly or impliedly participated in by me. I specifically did not participate in the findings contained in the November 9 reports to you.

I write to you not in an attempt to embarrass the Tariff Commission, its members, or its staff (the latter were dedicated as usual and performed Herculean tasks in these particular investigations). I write not because the outcome may have placed me in the minority rather than in the majority (I have been in the minority many times before and I expect to be many times in the future). I write not just because I wish to disassociate myself from certain Commission actions, but more importantly because I am alarmed at the irregular procedure and disrespect for the rules engaged in by the Commission in this instance. I feel the Commission must take corrective action if it expects to function as a viable institution, and I am confident we shall have your support in such corrective action.

The Tariff Commission was conceived as an independent body, insulated from political pressures, to perform the often thankless tasks of discovering the facts and compiling information in the international trade area and, where necessary, of making the hard decisions, based on the facts, called for by the law. If the Commission is to compromise its responsibilities with the untoward kind of behavior exhibited in the instant investigations, there may not be a legitimate place for it to operate.

It should be emphasized that, while the result in these investigations has been ostensibly to help a U.S. firm and U.S. workers, albeit at taxpayer expense, when rules are not adhered to and political expediencies outweigh orderly procedures, the result the next time may be to hurt a U.S. firm, U.S. workers, or a U.S. industry that may be properly entitled to relief. Once the rules are disregarded, and "anything goes," then it cannot be predicted what the results will be or who will be injured.

It is my hope that from the shambles of this particular situation we shall right ourselves and do the job we have been given to do and do it in the way we are supposed to do it.

Sincerely,

WILL E. LEONARD, JR.

[For release November 9, 1971]

TARIFF COMMISSION REPORTS TO THE PRESIDENT ON PETITIONS OF TEXTILE FIRM AND ITS WORKERS—BIBB MANUFACTURING COMPANY, AND ITS EMPLOYEES, ELIGIBLE TO APPLY FOR ADJUSTMENT ASSISTANCE

The U.S. Tariff Commission today reported to the President that the Bibb Manufacturing Company, Macon, Ga., and its workers, meet the requirements of the Trade Expansion Act of 1962 to apply to the Departments of Commerce and Labor, respectively, for adjustment assistance.

In the investigations (TEA–F–31 and TEA–W–112), the Commission, by majority vote, found that articles like or directly competitive with textile products produced by the Bibb Manufacturing Company are, as a result in major part of concessions granted under trade agreements, being imported into the United States in such increased quantities as to cause, or threaten to cause, serious injury to the firm and the unemployment or underemployment of a significant number or proportion of its workers. The Commission's findings in the two investigations were by 4–2 votes. Chairman Bedell, Vice Chairman Parker, and Commissioners Sutton and Moore constituted the majority. Commissioners Leonard and Young dissented from the findings.

A part of the material contained in the report may not be made public since it includes information the publication of which would disclose the operations of an individual firm. The Commission, therefore, is releasing to the public only those portions of the report that do not contain business confidential information.

Copies of the public report (TC Publication 432), which contain statements of the reasons for the Commissioners' findings, will be released as soon as possible. Copies will be available on request as long as the supply lasts. Requests should be addressed to the Secretary, U.S. Tariff Commission, 8th and E Sts., N.W., Washington, D.C. 20436.

CAN YOU ISOLATE FOREIGN ECONOMIC POLICY FROM FOREIGN POLICY CONSIDERATIONS?

Mr. CULVER. Thank you very much.

Gentlemen, I would like to thank you both for the very constructive approach you have taken to the issues being considered by this subcommittee.

You have certainly, in the first instance, raised questions about the efficacy of the trade adjustment assistance in a manner that allows us to explore some of these questions further with you.

I think you as well have given us very valuable, concrete information about your particular and depressing experience concerning the way the program has operated in the past, which points the way, I think, hopefully, to needed reforms.

This is most constructive, and I want you to know we appreciate it.

Now, I have certain questions for Mr. Sheehan, and then for Mr. Bernstein, but I hope you will both contribute to the answers whenever you feel appropriate or see fit.

Mr. Sheehan, one general question at the outset. You suggested that foreign economic policy should be considered on its own merits, not as a handmaiden of foreign political or security policy. On that, I have two questions.

First, it is true, is it not, that trade wars and other economic frictions do have an adverse effect on our overall foreign relations?

Secondly, looking at foreign economic policy in isolation, as you have suggested in your statement, are not trade and investment retaliations by other countries a real possibility, and would these not be harmful to our immediate as well as our narrow self-interest? Many

people, for example, suggest that the Smoot-Hawley tariff barriers contributed greatly to our great depression.

Mr. SHEEHAN. Well, actually, Mr. Chairman, I think what we are trying to say here is that what is actually existing is the contrary.

I feel that the foreign political policy is being looked at just from its own point of view, and everything else just happens to be a consequence, or something that is getting in its way.

Now, maybe we are trying in a dramatic way to say that that kind of priority should not prevail.

I find that any time we start looking at our trade policy, far from some of the discussion being in the area as to whether we really do have a trade problem—I mean there are some, the economists could debate it, and you have heard some of the debate this morning, and we certainly welcome that, the fact is that we do not have enough statistics, and we do not have enough governmental agencies looking at the trade policy. We find in many cases, really, a closed ear on this, that is, the whole fact that this will disarrange our State Department, and that somehow or other we are going to jeopardize our international position.

So what I am really saying here, Mr. Chairman, is that our trade policy has been the handmaiden of our diplomatic policy, and maybe it was a good handmaiden when it was able to serve in that function.

We are convinced that it can no longer serve, and when that is happening, then maybe the foreign policy people ought to start taking a look.

Now, another thing that I might say here is that this apprehension of retaliation, I think perhaps, is a lot of rhetoric, and I say it this way because the United Steelworkers of America has now, for, I would say the last 6 years perhaps, been actively trying to obtain restrictions, protection if you want to use the term, in the steel industry, in the steel trade. As you well know, we have attained it. We did not obtain it directly through legislation, but we did obtain it through a voluntary agreement.

Now, aside from whether it has been adhered to, et cetera, et cetera, there are restraints, there is a barrier, there is a quota barrier, which is the heart of the Hartke-Burke bill.

Where is the retaliation?

Mr. CULVER. I certainly appreciate the thrust of your concern and your criticism that in the post-war period, for example, we have frequently judged it to be in our overall foreign policy interests to sacrifice some particular economic relationship or advantage that we had currently to achieve some desired security or political objective.

What you are really saying now is that this is a dividend that we can no longer afford to pay, and that any foreign policy formulation henceforth must be based on an equality of security and political and economic issues. It that it?

Mr. SHEEHAN. Something like that.

Let me just give you one comment here which may be more apropos to our domestic situation.

Certainly inflation is an economic problem, and it is also a political problem. Now, we are well aware of the economic problem, but if the political managers will start tampering with the economic system

to the extent that it can cause unemployment to bring down inflation, because this also eases a political problem in this country, we are, as you know, very much concerned about it.

I do not wish to belabor that point, but it seems to me, in my mind, at least, that the analogy that we are making here is basically the same.

We are now—a least this is our feeling—beginning to suffer economically from our trade policy, and I think that the people that are involved with the diplomatic relationships of the United States should be more than willing to understand that, and say, well, we have to devise new rules here. We are still going to pursue our same objectives.

This idea of Smoot-Hawley and isolationism—this is not the position we are in.

Now, maybe we just happen to be looking through very shortsighted glasses, but I can assure you that our own attitude here is not to reject a continuation, and certainly an expansion, of internationalism, but what we are saying is: Don't make us pay this economic price for it.

Mr. CULVER. Mr. Bernstein.

Mr. BERNSTEIN. Countries are notoriously ungrateful. Countries also are notorious for not acting out of emotional responses.

Sure, some countries may very well retaliate if the Burke-Hartke bill were passed. Most countries will not. Why will they not? Well, the Burke-Hartke bill is not a Smoot-Hawley bill. We are not, under Burke-Hartke, raising a tariff wall and shutting out imports. What we are doing is looking in the gains which the foreign countries have already made on the American market.

The foreign producers, the exporters, will take a very long look at what they shall already have achieved in the United States before they risk losing that in order to retaliate for this act that the Congress of the United States may enact.

My guess is that there will be a great deal of smoke, and a great deal of noise, but very little actual damage done.

Look. We are at a disadvantage. Part of it is our own fault. We don't have a value-added tax, as they do in most European and other countries. We don't have the kind of aid to exporters that comes through a value-added tax. We don't have the aid to importers that comes through a value-added tax.

We do the opposite. We don't have, except for the American selling price, most of the tariff barriers that exist abroad.

We have the U.S. Tariff Commission, which has not taken but a small fractional part of the power it can exercise under our obligations to GATT under either the dumping or escape clause or countervailing duties. We have generally rejected such petitions.

The power of our retaliation to foreign retaliation of the U.S. action is so great, the value, the interest that the foreigners have in the market, they shall be able to retain our conditions, remaining equal under Burke-Hartke. It so great that I doubt that there would be any significant retaliation.

Mr. SHEEHAN. Mr. Chairman, I don't wish to prolong the answer to your question, but I just happen to have in my pocket a clipping that appeared in the Journal of Commerce on the 21st of this month.

How do we evaluate these threats of retaliation? I am afraid that

every time we do make some kind of an effort to talk about a change, this charge of retaliation is being made, and we are all trying to evaluate it.

But what I was surprised at was just the headline of this particular article. I just would like to read the headline. It says here "Antidumping Actions of the United States Anger Japan," and it indicates here:

> Japan may retaliate through use of its own antidumping machinery if the American Treasury Department proceeds with plans for tougher and speedier enforcement of the Antidumping Act, according to the official Japanese Ministry of International Trade and Industry and Finance Ministry today.

All I am indicating here is that there has been some criticism of these mechanisms of our Government that nobody on the freer trade side would say are restrictionist. They are saying, "Maybe we ought to do something about redumping."

And yet, here in this paper is the threat of retaliation.

So we take it—we don't know how to take it, but we would like to say with a grain of salt.

RETRAINING PROPOSALS

Mr. CULVER. On page 7, Mr. Sheehan, you say, quite properly, "What we want are jobs, not relief checks."

This goes, as I see it, to the failure of the present trade assistance program, which was supposedly intended to provide retraining opportunities for new jobs and actual job placement in productive lines of work, but which has done practically nothing in this regard.

Now, neither your statement nor Mr. Bernstein's mentions retraining, and I wonder if either of you have any proposals as to what a viable national manpower act should contain in this respect.

Mr. SHEEHAN. Let me make one comment. I think Meyer may also like to make a comment on this.

I heard some of the discussions this morning on our manpower training program.

If I recollect the history here of the Manpower Training Act, the 1962 Trade Expansion Act did precede the Manpower Act, the MDTA Act at that time. In this act, redevelopment had in it the germs of what eventually became the Manpower Training Act, and then eventually it became an act of its own.

Yet, the discussion concerning the viability of a manpower training program was that it was designed to handle the so-called structural unemployment, that it was not designed to handle anything else, that there were round holes with square pegs, and if you rounded off your tool, there you would be able to fit them in. And that remains today.

I think the real criticism of the MDTA program is that there are not enough round holes available.

To assume that you could take a steelworker that Meyer Bernstein talked about for which they got trade adjustment assistance down at Ambridge, Pa., and other steel centers, and all of a sudden retrain him, at the age of 50, 55, for some currently existing job in a steel community, I think flies in the face of the realities that we are learning under the Manpower Training Act.

Now, I don't mean to say that any provision that involves trade adjustment assistance that may come out of the Congress ought not to have all these ingredients in there. We would support amendments in this area that would have that whole bag in there.

All I am trying to say is that we support it, with the total knowledge that it will not really satisfy that man that is going to be displaced by his job. He is probably going to be an older employee. He is going to be a man, for instance, for which the Congress has not yet done anything to protect his pension. The Congress is most reluctant to move into the area of reinsuring his pension.

What happens? What happens to the seniority promotional opportunities? Does he slide over with the same rate of pay after spending a lifetime accruing a skill and accruing a status in the particular plant environment that gave him the rate of pay that he has lost? That is not there.

So all I am saying in relation to the retraining aspect is, sure, we would support it, but our experience is that it just is not going to work.

Mr. BERNSTEIN. Mr. Chairman, for all practical results, the retraining program under the Trade Expansion Act of 1962 simply meant that if a laid-off worker was in a training program, then his benefits would be extended from a maximum of 52 weeks by 13 weeks to a maximum of 65 weeks. That is all. It did not have any other advantage.

CORPORATE RESPONSIBILITY AND THE ADJUSTMENT PROCESS

Mr. CULVER. Mr. Bernstein, I am very interested in the 1963 U.S. Steel case you cited, where the company decided to ship iron ore from its Venezuelan plant. Did U.S. Steel make any provisions for its own workers that were laid off in this country, do you know?

Mr. BERNSTEIN. None whatsoever, except to the extent that the collective bargaining contract in effect at that time provided for a small pension, or in other cases for severance pay up to 16 weeks. Other than that, nothing.

Mr. CULVER. There was a recent Wall Street Journal article about what the American Oil Co. did when it closed down an inefficient refinery, which was to arrange job placement and housing relocation for each of its workers, as well as, I believe, deed the land to the community.

I think this opens up the question and suggests really the responsibility private and multiplant firms have in this area, and what properly should their capacity, and their responsibility be in this area.

At the least, it seems to me if there is a Federal or State program available to workers, the company should give early notice to the authorities, and work with them toward the solution. Yet you say U.S. Steel refused to cooperate.

Mr. BERNSTEIN. Absolutely, at that time.

Mr. CULVER. This is very disturbing to me.

In your judgment, what should be the responsibility of multiplant firms in this area, and can it be enforced?

Mr. BERNSTEIN. Mr. Chairman, since that time, we have made some considerable progress in our relations with the U.S. Steel Corp. We have been able to incorporate into our collective-bargaining agree-

ment benefits which exceed those which were in effect at that time, and which do provide for some kind of help in getting new jobs.

For example, one has first opportunity for job openings at other plants of the same company, the one that carries seniority for certain purposes.

Our supplemental unemployment benefits program provides for certain aids. We have what we call magic numbers under our pension program, when in the case of a shutdown of a plant or a mine, the sum of the man's age and seniority allows him to take an early retirement.

All of that is being done, but we do not have any real program of job provision such as they have in Europe under the European Coal and Steel Community, for example, or such as they have in the railroad industry in the United States, or such as they have in Great Britain, or even Japan. We are, in that respect, very backward—very backward.

THE ADMINISTRATIVE STRUCTURE

Mr. CULVER. Your administrative recommendations would leave to the President, any President, the choice of——

Mr. BERNSTEIN. Any Secretary of Labor, too.

Mr. CULVER (continuing). The choice of a structure or structures to make decisions and to distribute benefits. What do you think that structure should be?

For example, should we have an independent Trade Adjustment Assistance Board? Should it have regional offices, for example, to improve accessibility as far as affected industries and work forces are concerned? Should there be separate boards or subboards for each major industry classification?

Mr. BERNSTEIN. I know the Fraser bill provides for regional boards. The Canadian-American Agreement provided for a Presidential board which in effect turned the real responsibility over to a bureau of the office of the Department of Labor.

All I can say is that the Canadian-American Agreement worked very, very well.

DATA NEEDS AND AN EARLY WARNING SYSTEM

Mr. CULVER. I think one of the most important aspects of your statement is with regard to this problem of confidentiality and terms of the information submitted in connection with the petition for relief.

Now, we are generally committed in this country to an atmosphere and a climate of open adversary processes, but frankly, when you get into confidential, competitive data, as I think you must when you talk about this sort of problem, and particularly if we want to promote early warning of potential job layoffs, so that planning can go forward without unduly alarming interested parties and communities, should we perhaps be thinking more of some sort of consultative process between industry and labor and Government, and less of this classic adversary process?

It seems to me it is so critical in terms of an effective program that we have a system and mechanisms that permit us to anticipate these

problems early on, and take the sort of adjustment steps necessary before they develop into such acute situations that the cost is insurmountable, and the political pressures are impossible to deal with.

Mr. BERNSTEIN. In general, I would say yes; but unfortunately, it does not always work out that way.

Let me give you an example. In Texas there was a company called the Mirage Co. that made the cotton gin—not the other kind of gin, cotton gins. It is a subsidiary of a subsidiary of a conglomerate. The company or the conglomerate owning it, the conglomerate was North American Rockwell Aviation Corp.

The conglomerate decided to go out of this business. It entered into a deal with a Brazilian company. It would sell all its patents, all its rights, all its manufacturing secrets, all its processes to the Brazilian company. The Brazilian company would then make cotton gins in Brazil and export them to the United States.

One fine day, the company tells us the plant is going to shut down. Why? Going out of business. We pressed them. We finally get word about this agreement they have made with the Brazilians, so we filed a petition. Our people are going to lose their jobs. The product they are making in Texas is now going to be made in Brazil, and it is going to be exported to the United States.

The Tariff Commission refused to accept the petition, and has continued to refuse until this very day. The plant shut down. Nothing has been done.

I then wrote a letter to the Commission. I said, "We are in a very difficult position. How do we know when those cotton gins are going to start coming into the United States? There are not any TSUS cotton gins. It comes under a general provision. So I can study all the Bureau of the Census reports from today until doomsday, and I will never see cotton gins on it. The company is a subsidiary of a conglomerate. It is through. It is gone."

We have contracts with other subsidiaries of the same conglomerate, and I have taken the question up with them. They say, "Well, we cannot do anything. It is another subsidiary of our conglomerate."

What can we do? We are lost. We are hopeless.

Your proposal would be good, if we had the kind of economic climate or labor climate where either because of law, as in Germany, or custom, as in Japan, there is in work matters a close collaboration between the union and the employer, and where we know in advance.

In Gemany, for example, they just passed a revision of a law they call the Betriebsvertassungsgesetz. It is a law dealing with relations between workers and employers at the workplace. The law sets forth the rights of the work councils and the unions, and under the law the company is obligated to tell the workers the moment it begins considering such a thing as shutting down a plant or abolishing a department exactly what it plans to do, and then to keep the union or the work council informed in every stage.

I have cases where we got a pink slip at 4 o'clock in the afternoon, the plant shut down on that day, and the next day we were out of work. Our management is not that mature yet, in general. We have exceptions.

Mr. CULVER. Excuse me.

The members have been advised that there is a rollcall going on the floor. We have to go to vote, but we will be back very soon. I would like to recess, then, for that period at this time.

(A brief recess was taken.)

Mr. CULVER. The subcommittee will come to order.

Mr. SHEEHAN. Mr. Chairman, while you are looking at your notes, you commented on the early warning systems, and certainly I think this would be most admirable, except for this, that in a number of other related areas we have been trying to develop these early warning systems; for instance, in the field of Government procurement with the Defense Department.

We have been asking for some kind of preknowledge of whether there will be a termination of a Government contract, that at least we may not be able to obtain a new Government contract. By that, we could begin the so-called readjustment process.

We are talking about it even now, where we are moving into an era of even tighter pollution control laws. Here we talk about early warning systems.

We talked about them back in the early days. I think they are good to have, but probably hard to achieve.

SUPPLEMENTAL ADJUSTMENT PROGRAMS

Mr. CULVER. You mention marginal firms and workers, and I suppose that the original rationale of trade adjustment assistance was precisely to try to help them.

If whole industries are injured, escape clause relief is appropriate, but if the industry on the whole is healthy, it does not need escape clause relief, and indeed that would not help workers.

So with adjustment assistance, we can target relief to those who need it at less cost to the economy, theoretically.

Do you agree with that concept in principle?

Mr. SHEEHAN. Yes.

Mr. BERNSTEIN. Yes.

Mr. CULVER. Going further, are there things other than trade restrictions that the Government should be doing to assist industrial adaptation—in terms of reducing excess capacity, or promoting research and development, or providing better market information?

Do you think there is need in all these areas in terms of a coordinated program that would be more effective?

Mr. SHEEHAN. One aspect that you mention there, and I think that is what we mean by a foreign economic policy, that may include features that the committee would reject; but it does include, I think, this whole question of the type of expansion of overseas capacity.

In the steel industry, we have been complaining for quite some time about the enormous expansion of overseas productive capacity, and we know full well that that capacity was not being constructed for domestic construction, but for this market.

By the same token, we noticed a falloff on investment in our own productive capacity because of these inroads that might be made.

Certainly I think a foreign economic policy would go into all these aspects, and that is what we mean by that kind of a review.

Now, what the Congress may do in terms of areas of protecting the currently employed people, and the current plants, that is something else again, but it ought to be part of this overall package.

ELIGIBILITY CRITERIA

Mr. CULVER. Mr. Bernstein, I was interested in your comments on the question of eligibility. Do I understand you to favor the formula in the Automobile Products Act of 1965.

Mr. BERNSTEIN. Well, it is better than the one under the Trade Expansion Act, and the Fraser one is better yet.

Mr. CULVER. The formula in that regard was that when there was a decline in exports as well as an increase in imports those industries could qualify, and the burden would be on the President to find that there was inadequate casual connection. Is that your position?

Mr. BERNSTEIN. Yes.

THE INTERACTION OF ADJUSTMENT ASSISTANCE AND UNEMPLOYMENT COMPENSATION

Mr. CULVER. Let me ask you about benefits. You commented on that, and I think in a very useful way as far as the subcommittee is concerned.

Could you give me an illustration of how adjustment assistance and unemployment compensation now interact? I think you have done that to a certain extent, but taking the case of a hypothetical worker, how do you think they should interact or complement each other?

Mr. BERNSTEIN. Well, I think they should run tandem. That is, a worker should not have to deduct, or have deducted from his adjustment assistance unemployment compensation.

This is always done now, with the result that the worker actually receives only a few dollars, and in Connecticut only about $5.

Under the present law, the 65 percent is either 65 percent of your own earnings or 65 percent of the national manufacturing average, whichever is lower. Well, the national manufacturing average can, in many instances, be only half of the earnings of the man who lost his job, so he gets 65 percent of half of his earnings, and for him, the unemployment compensation already has become pretty close to that.

So in this case I had in Connecticut, $5, $10 per week per man was the maximum, and even there it did not run as long as it would elsewhere. In most States, unemployment compensation runs for 26 weeks or so, in some cases 30 weeks so that the man would get for the first 26 weeks retroactively now of his unemployment the difference between 65 percent of the national average manufacturing wage and the State unemployment compensation. In most cases, that runs to about $30 or so.

Then, after the end of 26 weeks and the exhaustion of his State unemployment compensation, he then gets the full amount of that 65 percent of the national manufacturing wage for the remainder of the 52 weeks eligibility.

What I propose is that the man be given a choice, either let it run

retroactively, which he would want to do. If, by that time, the certification shall have been issued, he shall have found another job, good, then let it run retroactively, and he gets the difference. It is a small amount, but he gets something.

If, on the other hand, he is still unemployed, then at that moment he is cut off from State unemployment compensation, and he now receives the adjustment assistance. Now, he is taking a chance, because 2 weeks later he might get a job. He has to remain in the labor market, because the adjustment assistance program is administered by the State unemployment compensation office, and generally, with a few exceptions, he has to qualify for State unemployment compensation in order to be eligible for adjustment assistance.

Just as a matter of additional information, Jack suggested that I call to your attention that we have in the automobile industry and in the steel industry a provision in our contract called supplemental unemployment benefits, which provides an additional amount over and above State unemployment compensation to workers of particular companies under contract workers.

In the automobile industry, the union attempted to secure adjustment assistance and SUB together. It involved the Ford Motor Co. The company opposed it. The company refused to pay SUB.

The case then went to arbitration, and the arbitrator ruled in favor of the company, so that the workers in the automobile industry got only adjustment assistance. So it did not amount to anything more than they would have gotten under SUB alone, almost, not quite. They would have gotten something more, but the amount was materially reduced.

Then it came our turn, when we won the three cases under the Tariff Commission. This automobile case was under the Canadian agreement. The steel industry thought that they were going to deduct that, too.

Well, we said we did not go to the U.S. Tariff Commission to obtain a benefit for you, because that is what it would amount to. They would get the advantage of it.

We had a rather hectic session, in which I lost my temper, and the result of the meeting was that the company very generously, with their arms twisted a little bit, but generally agreed for the most part to pay SUB and TUC and trade adjustment assistance, so that we have a very good agreement under the steel industry for workers who receive adjustment assistance. They receive adjustment assistance and SUB, not quite the full amount, but close enough.

RELOCATION ASSISTANCE

Mr. CULVER. One of the problems in the benefits field seems to be housing. If the plant is going to close down, that probably has the effect of depressing the real estate values in the area and making it more difficult for a worker in fact to sell his home and to move to another location to begin work, even if there were job opportunity there.

Should the Government, in your judgment, step into this area, and, if so, how?

Mr. SHEEHAN. Well, one quick comment, and then Meyer can speak from some European experiences in this area.

I certainly feel, Congressman, that there surely ought to be governmental support where the injury occurs because of the change of public policy.

I don't think that you would be able to achieve that only, let's say, in the area of trade. It seems to me that this should also be open, for instance, in areas where pollution laws result in a closedown, because again of the change of public policy.

As a matter of fact, this very aspect that you are speaking about now, we have been pursuing this under the legislation known as the Economic Development Act, and, yes, we do support a wider scope and horizon of benefits, because the loss to the man is much more than just the job, which we had indicated earlier.

Mr. BERNSTEIN. I would agree with that.

In Europe, most worker housing in basic industries is company housing, but the company housing is in many instances, at least in the early postwar years, supported by tax concessions, so that you had the combination of the three.

We don't have this in the United States. We have had a very unhappy experience with company housing, and most workers shy away from it, even though it has been considerably improved.

I would think that we ought to have a housing program for workers, and a housing program ought to have provisions for people who are disadvantaged as a result of Government policy, either in pollution or in trade expansion, or for any other reason, rather than having a special deal dealing just with adjustment assistance, trade injury, and giving housing benefits under the injured.

SPECIAL PROGRAMS FOR OLDER WORKERS

Mr. CULVER. What should we do about older workers regarding mobility and portability of pension rights?

Mr. Sheehan made reference to the possibility of acceleration of social security benefits, retraining, and so forth.

It seems to me that this is a directly related area and that there are some things happening, as you are well aware, in the Congress, but only in a very preliminary way, and it seems so fundamental to an effective resolution of the problems posed in relocation and dislocation.

What are some of your thoughts on the position of older workers?

Mr. SHEEHAN. Certainly this particular aspect, Mr. Congressman, is a very critical one, very critical not only because you are talking about the loss of a pension because of a change in public policy, but there is a loss of pension due to just the vicissitudes of the economy.

As far as the Steelworkers are concerned, one of the major legislative programs here is that we feel that in the private pension field that workers ought to vest in their pension, so that if for whatever the reasons, they terminate their employment prior to eligibility of age, that they can then maintain their pension benefit.

Looking at it from the collective bargaining side, we do have situations where there are plant shutdowns where there is vesting of these interests, but surely there ought to be a combination here of guaranteeing that the private pension plan will deliver the benefits, and also that

social security ought to be made available to workers, their social security benefit should be made available to them earlier than they would normally be entitled to.

There is a drive on for early retirement, anyhow, but if this type of early retirement is accelerated by public policy decisions, pollution, trade, surely the social security system ought to be amendable to change in that area.

Mr. CULVER. You are moving rapidly to the point, too, are you not, where the pension provisions in your contractual agreements are really viewed not so much as fringe benefits as they have in the past, but really rights?

Mr. SHEEHAN. Deferred wages, not fringes. That is right. Yes.

Mr. BERNSTEIN. Mr. Chairman, in the case of basic steel, we have a provision under which, when a plant shuts down, a worker is entitled to early retirement, full pension on the basis of his having sufficient age and seniority to qualify.

Now, when the Armco Steel Corp. abolished its mill in Ambridge, Pa., 320 workers were laid off; 147 of them qualified for early retirements.

Now, this is one of the good things of the legislation, the Trade Expansion Act. Under unemployment compensation laws, workers who go on pension are not entitled to unemployment compensation, so the workers have the choice of either taking unemployment compensation or a pension, but under the adjustment assistance, they can get both.

So what has happened to these 147 people is that they qualified for pensions. They all went on pensions immediately. At that time, the rate was $5.50 a month for each year of service, so if a man had 30 years of service, that was $195 a month. He receives that, plus adjustment assistance.

Now, some of these were over 60 years of age. Under the Trade Expansion Act of 1962, this entitled them to benefits for 65 weeks.

So a considerable percentage of the 147 persons that went on retirement, out of the 320 who were laid off, received their pension plus the unemployment plus the adjustment assistance for 65 weeks, or over $5,000.

Now, this was the most heartwarming experience I had when I was able to meet with these people and tell them what they were getting.

Mr. CULVER. Thank you.

Mr. Whalen.

Mr. WHALEN. Thank you, Mr. Chairman.

Gentlemen, we appreciate the information which you have given us this afternoon.

Of course the function of this subcommittee, and this is true of any committee or subcommittee in the Congress, is to identify problems, to obtain the facts as they relate to these problems and then, to make recommendations based upon these facts.

I just would like to recapitulate the testimony that both of you gentlemen have given today.

It seems to me that you have identified two problems and I think you have also indicated the need for obtaining two sets of facts. As I heard your testimony, you have indicated that the provisions of the 1962 act as they relate to adjustment assistance are inadequate.

I presume you would agree with that.

Mr. BERNSTEIN. Amen.

ELIGIBILITY CRITERIA

Mr. WHALEN. I think certainly that the statistics that you quoted along with with those we heard yesterday and again this morning would bear that out.

I was not a Member of Congress in 1962 but as an economist I, of course, followed with a great deal of interest the trade expansion legislation of that year. As I recall it—it seems to me, too, that your testimony confirms this—the relief to be provided by this act would be only in those instances where workers and companies were affected as a result of agreements reached pursuant to that Act.

Mr. BERNSTEIN. Not pursuant to that act alone, but pursuant to the reciprocal trade agreements. It might have been 10 years ago or previous.

Mr. WHALEN. Yes. So as I think you have cogently pointed out, when there is injury it is very difficult to determine precisely the cause of it. It would seem to me that this would be one of the weaknesses in that particular provision of the 1962 act.

It would be your view, then, that we should expand the adjustment provisions to take care of injury from foreign trade regardless of the cause, whether it emanated from——

Mr. BERNSTEIN. Regardless of cause.

THE ADMINISTRATIVE PROCESS

Mr. WHALEN. Then your second concern was the adjudication process in which, as you pointed out, the Commission really conducts what you term star chamber proceedings due to the lack of information, and, the fact that decisions are given without any precise reasons.

What we as a subcommittee should be looking toward, then, is perhaps an alternative with respect to the proceedings which would stem from any changes in adjustment assistance.

Mr. BERNSTEIN. May I interject one thing here?

Here is a very serious problem which results from the failure of the Commission to tell us why it approves some cases and rejects others.

Obviously, when anybody is laid off, he is going to scurry around and try and find something to hang on.

Mr. WHALEN. Right.

Mr. BERNSTEIN. If adjustment assistance comes to mind, he will say, well, it is foreign competition, that is why I lost my job, the company was complaining about foreign competition, and he will want me to file a case.

I have had dozens of such letters from people asking me to file cases. Obviously, I have got to screen these. I can't file a case for everybody and everything without having some justification.

But on what basis can I screen them if I don't know what the rules are, if I don't know what the measuring rods the Commission is using?

I have turned down cases because I didn't think they had conformed with what I understood to be the meaning of the Trade Expansion

Act of 1962. But now I discover that in the *Bibbs* case, for instance, the one which Commissioner Leonard speaks about, here is a favorable decision.

Well, what do I have to look for now, politics?

I am afraid, I am afraid that maybe I turned down some cases that might have been won.

Mr. SHEEHAN. Mr. Whalen, I know you don't misunderstand our response to your question; namely, that we do support perfection of adjustment assistance, but I just would like to reiterate that we do support it within the context of our support of it in 1962, and under the assumption that the trade situation was not as deleterious as it is today.

For instance, in 1962 in steel we were surplus, today we are not, and I am afraid—I would not want to mislead you with that answer. Our support of a revision perfection may be, to most of us, irrelevant.

A NEW THRUST FOR ADJUSTMENT ASSISTANCE

Mr. WHALEN. Would you agree that the thrust of adjustment assistance has been changed? In 1962 the thrust of it was to achieve more liberalized trade whereas today it seems that the witnesses who have appeared before us have indicated the need to improve our adjustment assistance so that we can forestall protective legislation.

Mr. SHEEHAN. Yes; I would say in 1962 it might have been offered to labor. Labor certainly in 1954, in the Steelworkers, for instance, was part of the origination of it, certainly it was offered to us as—how shall I say—as a gift for our support for the Trade Expansion Act, so that we could continue with it. I think today it is now being offered to us to prevent, to forestall all protectionism and I don't think the gift will be accepted.

HOW PROTECTIVE IS THE UNITED STATES?

Mr. WHALEN. At least not willingly.

Well, I think, then, this gets into another area that I alluded to and that relates to the facts or absence of facts.

Throughout your testimony, I think that you operated on a premise that the United States was not protective or much less protective in terms of tariffs and nontariff barriers vis-a-vis other countries of the world.

However, in various hearings, private meetings with representatives of other countries, I don't quite get this picture. So it seems to me that this subcommittee does have the responsibility to obtain facts which will indicate one way or another whether, indeed, the United States wears the white hats and the others the black hats.

THE VALUE-ADDED TAX

Mr. BERNSTEIN. That depends how you interpret the word "protective."

For instance, the VAT, the value-added tax, that is legal under the tariffs on trade. It is perfectly acceptable but it is devastating to any country that does not have it.

Mr. WHALEN. You would recommend it be adopted?

Mr. BERNSTEIN. No. We object to the value-added tax on the social ground, it is a regressive tax. But I must admit, if I have to, as an international affairs man, make a decision and I have to forget all social considerations in the United States, then I would say for heaven's sake let's pass the value-added tax; it will solve a lot of our problems.

But we are opposed to it because we are Americans, we are in favor of it because—well, maybe free traders.

Mr. WHALEN. I think here, again, you have cited another area that certainly is deserving of examination, the competitive aspects of the value-added tax, both from our standpoint as well as from the standpoint of our trading partners.

Mr. BERNSTEIN. Let me give you another thing which I cannot understand. Our Government has, ever since Roosevelt became President, decided that we will use the power of Government purchases to force American industry to comply with certain social legislation. You cannot sell to the U.S. Government unless you comply with certain basic standards.

The Walsh-Healey Act, for example, you cannot sell if you don't comply with the wages, you can't sell if you don't comply with the minimum hours, you cannot sell if you don't comply with minimum age, and so on.

Yet our Government which requires our American producers to have this social policy waives all of that with respect to foreign companies. This is idiotic.

If we are going to say that if you are going to do business with the United States, you have got to establish certain minimum standards, then we ought to have the same principle with foreign producers.

Now, I don't say that you have to accept the same minimum wages because wage levels in different countries are different, working ages are different, working hours are different.

But there ought to be an international fair labor standard provision.

I might say that the International Workers Federation, a trade secretariat consisting of some 50 industrial unions in some 30 western non-Communist countries, has for 3 years debated this provision, and we have come out with a formula which all of our unions accept, the steelworkers in Japan accepts it, the metalworkers union in Germany accepts it, the Confederation of Iron and Steel Workers of Great Britain accepts it, all of our membership accepts it. This is the kind of thing which we think should be offered to the American Government. This is not Buy American; this is simply an effort to eliminate a discrimination against the American producers.

THE IMPACT OF FOREIGN TRADE ON OUR ECONOMY

Mr. WHALEN. I think one other set of facts that clearly must be obtained deals with this question of the total impact of foreign trade on our economy.

I was concerned that neither Mr. Goldfinger nor Mr. Biemiller in their presentations were able to make any such presentation. I think you were here this morning. I did quote the study made by Mr. Krause of Brookings, and they deprecated his reputation, thereby questioning his conclusions. It was further pointed out that the Federal Government has been less than responsive in requests of the Labor Depart-

ment, the Department of Commerce, and presumably the Department of State.

Have you experienced these difficulties in trying to obtain relevant facts that would relate to this problem?

Mr. BERNSTEIN. Yes; the Federal Government has not really addressed itself objectively to this problem. The Federal Government today is only offering information which is highly weighted, highly biased. They are not trying to get facts. They start with conclusions and then they try to find data to support these conclusions. This is true particularly of Mr. Peterson. This is true of Mr. Connally and this is true of the administration generally.

I think we need a more objective study that has not been done.

Mr. WHALEN. Would this also apply to the previous administration or is this a new problem?

Mr. BERNSTEIN. More or less, it applies to all administrations. The Council of Economic Advisers is there for the purpose of supporting the President.

Mr. SHEEHAN. I think, Mr. Congressman, what we are saying here and what we alluded to earlier, there is a very philosophic acceptance of the current trade policy and it has been around with us for a long time and maybe everybody sort of instinctively, intuitively carries on these kinds of procedures because they don't really want to critically open this up so that when they do ask for these kinds of figures they are not forthcoming.

I know as a representative for the Steelworkers here in Washington that on a number of occasions we were trying to determine what really was the impact of trade in this country and we find that those figures are not actually being compiled.

I think that is what we are getting at here.

HAS INFLATION CONTRIBUTED TO OUR FOREIGN ECONOMIC PROBLEMS?

Mr. WHALEN. Well, I would hope, Mr. Chairman, that when the Government witnesses come before the subcommittee that we might get a little enlightenment on this subject.

I think it might be well to address ourselves to the question as to why we have detected a rather substantial dropoff in our balance of trade figures beginning really in 1968 to a point where we have a negative trade balance. It does seem to me that this has coincided with the period of inflation which really began in late 1965 or early 1966.

Would you concur that inflation is one of the problems that has contributed to our——

Mr. BERNSTEIN. No; not at all. Inflation in most foreign countries is at a rate and has been at a rate considerably in excess of our own.

Mr. WHALEN. Since when?

Mr. BERNSTEIN. Since the 1960's.

Mr. WHALEN. I am talking specifically since 1968.

Mr. BERNSTEIN. It ran through the 1960's and up to the present date. Inflation in Japan, inflation in Great Britain is much higher than it is here.

Let me try to summarize.

Mr. WHALEN. Let me interrupt. I would admit between 1955 and 1965 that the United States had the lowest rate of inflation of any industrial country, almost any country.

Mr. BERNSTEIN. Germany, for a time.

Mr. WHALEN. I think for that 10-year period America has had the third lowest rate of inflation, behind, I think, Honduras, and perhaps one other country. However, I am talking specifically since 1966. I don't have the statistics in front of me but it seems to me that among the industrial powers the United States has had a much higher rate of inflation.

I say if you go back far enough, admittedly this would not be the case. But we are talking here about the impact on trade in recent years.

As I say, beginning in 1968 our balance has deteriorated significantly, and, as I pointed out really came at a time when we had a relatively low level of unemployment.

Mr. BERNSTEIN. Mr. Chairman, what has happened, this has come at a time when the economies of Europe and Japan have really begun to take off. It just happened that the inflation in the United States increased while theirs was continuing all that time. They never relented except for a few years in Germany.

Now, what we are faced with is this, and this is basic in our whole consideration of the trade program.

In recent years, the Europeans and Japanese have discovered America's market and they have expanded for that market. The Japanese steel industry which never had exceeded 8 million tons of steel production up to the end of World War II now has a production of over 100 million tons and most of the production increase has come about in the last few years.

Now, a large part of this is directed toward exports and they are continuing to expand with the expectation of continuing to increase their exports to the United States and to other countries.

We are the major recipient of Japanese steel today. The Japanese have many advantages over us. One, they built new steel plants from the ground up, their steel plants are all modern. They are more modern than ours. The biggest blast furnace we have in the United States is only one-third the size of the biggest blast furnaces in operation in Japan with comparable productivity. This gives them other advantages in reduction in the use of coal, for example.

IS THE UNITED STATES COMPETITIVE?

Mr. WHALEN. You are saying we are just not competitive then?

Mr. BERNSTEIN. Well, there are problems in connection with that. We, too, have been spending as much money in our steel industry, more money in our steel industry than they have been spending in theirs, but for their money they get an entirely new steel plant and all well laid out, automated, use of pellets, iron ore, coal coming from abroad, shipping up to 120, 130,000 tons, getting all the advantages together, having steel mills twice as big as the biggest steel mill we have in the United States.

The biggest steel mill we have is 50 miles from here, it was once the biggest steel mill in the world.

There are now three steel mills in Germany which are twice that size.

Now, when we spend money, we have to spend money modernizing; that is, taking out one old department and replacing it with a new one. We have to do it within the close confinement of the plant area. We cannot get nearly the kind of efficiency that results from building a whole new steel plant.

We have been able to build new steel plants in three places, one big one which is only one-third completed. This is at Vern's Ditch, another one at Jones and Laughlin and another one, United States Steel, which is only a small thing over in Texas.

But the Japanese start entirely from scratch, and they get many times the value out of a dollar than we get because of that simple fact. We say American know-how. We have a great deal of know-how, expertise, but the Japanese have this, too, and the Germans have it.

Look at the basic system we are using in the United States. Now, twice as much steel is made by the basic oxygen system as is made by the other system. Twice as much. But the basic oxygen was invented in Europe, not in the United States.

Mr. WHALEN. In 1962, President Kennedy recommended the Congress pass a 7-percent investment tax credit. The reason he gave for this legislation was that there was the need in this country to modernize our plants to become more efficient. What did pass subsequently was taken off the books was put back into the statute books in 1967. It was repealed in 1969, and then reinstated last year.

Has your union supported this last tax, investment credit legislation, along with the depreciation acceleration which was included?

Mr. SHEEHAN. Congressman Whalen, we opposed the reinsertion of the investment tax credit in this last go-around primarily because of the social impact of the tax system. We just didn't think it quite fair at that time in which we were trying to close loopholes and redistribute the burden that at that time the investment credit should be reinstituted.

Now, of course, it was reinstituted for economic reasons and some of the reports we see coming in from the steel companies indicate that, of course, they have used it. As a matter of fact, you have heard from your fellow Congressman from Ohio, Congressman Vanik, who, in his notorious newsletter, has indicated the United States Steel Corp. paid no taxes last year and one of the vehicles they used was certainly the 7-percent tax credit.

One further comment that I would like to make. Certainly I think they can use the tax credit and use it to the extent of modernizing along the lines that we are saying they are, and certainly to the advantage of the steel industry and the steelworkers. But to relate it incidentally to the Hartke-Burke bill, we certainly see no reason why any company should be able to use that tax credit in plants constructed overseas.

So we were opposed the last time for those social reasons, and we are opposed for economic reasons to its use overseas.

THE MOBILITY OF CAPITAL

Mr. WHALEN. Just one final question, Mr. Chairman.

I would like to repeat the question that I raised earlier this morning. I believe you gentlemen were here when I posed it to Mr. Biemiller and Mr. Goldfinger. That is the two sacred cows, you might say, that are a part of our free enterprise system. One of these is the right to strike which you defend and which as a union you have defended against efforts to enact legislation requiring forced arbitration.

The other fundamental principal to which I referred is the mobility of capital. This involves the right of the individual to invest his capital or not invest it as he sees fit. If he sees fit to invest it, he has the right to put it in an enterprise of his own choice at a location of his own choice. He then has the right to extricate that capital from that enterprise and either keep it in liquid form or put it in some other enterprise.

It would seem to me that one of the provisions of the Burke-Hartke bill would be to inhibit the mobility of capital.

Mr. SHEEHAN. That is right, Congressman, it would.

Mr. WHALEN. I am just wondering, would you entertain, then, any efforts to incorporate inhibitions upon labor's right to strike or bargain collectively?

Mr. BERNSTEIN. Mr. Congressman, they are already there. Neither right is an absolute right. We have many inhibitions on labor's right to strike, to bargain collectively, now, for example. I remember, in 1959, wherein Mr. Eisenhower obtained an injunction and we had to go back to work.

Mr. WHALEN. But you opposed it.

Mr. BERNSTEIN. We opposed it, sure.

Mr. WHALEN. There have been pieces of legislation you have opposed, and I have joined with you in that opposition. I am just saying——

Mr. BERNSTEIN. Let me tell you——

Mr. WHALEN. Quid pro quo.

Mr. BERNSTEIN. Look at the limitations we are under now. We cannot strike when we want to. We have to serve notice; we have to negotiate; once we sign a contract, we can't strike during the length of that contract. We have problems of great international import. For example, the matter of the chrome from Rhodesia, we think it is a crime.

Mr. WHALEN. I agree.

Mr. BERNSTEIN. Yet we cannot do anything about it; we have to work on that. We cannot strike.

Mr. WHALEN. Well, you have signed a contract.

Mr. BERNSTEIN. We have signed a contract, sure.

Mr. WHALEN. Yes.

Mr. BERNSTEIN. When we signed the contract, we didn't know the company was going to violate the United Nations resolution.

Mr. WHALEN. It seems to me that other than the specific pieces of legislation which periodically emerge in the Congress restricting the right to strike, that you do have the right to strike after a contract is terminated.

Mr. SHEEHAN. Mr. Congressman, one thing I would like to say about the analogy you are making, you are aware of the areas in which our strike is limited. There are those limitations. The point I would like

to make here is your reference to the Hartke-Burke bill and the restriction on the flight of capital overseas.

I think those provisions there which were in title I of the bill really are not restrictions on the flight of capital overseas, as much as one wants to take away the incentive for capital to go overseas.

Mr. WHALEN. I think there are two areas with respect to capital. One is the tax area which you indicate provides certain incentives to invest overseas, and I think that is a separate question.

The other, as I view it, are the restrictions of the flow of capital tied in with its effect upon the economy, the labor market, and so forth. I am concerned that this legislation in effect tells the individual who possesses capital, "Look, this is yours, this is private property, but you are not free to invest it as you see fit."

Mr. SHEEHAN. But you are doing that internally in this country. Look at the tight money policy. Take a look at how your tax code will direct capital, for instance, into certain types of capital expenditure, sometimes you are trying to stimulate it there.

For a social purpose, you will use the fiscal and monetary powers of Government.

Mr. WHALEN. Once again, you are talking about incentives, and there was a valid objective.

Mr. CULVER. The time of the gentlemen has expired.

I wish to thank our witnesses very much indeed for some very helpful and informative testimony today.

Mr. SHEEHAN. Thank you, Mr. Chairman.

Mr. CULVER. We are delighted to welcome before the subcommittee our next witness, Mr. C. Fred Bergsten, of the Brookings Institution.

Mr. Bergsten formerly served with the National Security Council of the White House and has testified during the course of the subcommittee's hearings of last year.

The Chair wishes to express our appreciation for your cooperation and understanding today in terms of the delay that you have experienced in being afforded an opportunity to testify. We apologize for that, and appreciate your cooperation very much.

STATEMENT OF C. FRED BERGSTEN, VISITING FELLOW, COUNCIL ON FOREIGN RELATIONS; GUEST SCHOLAR, BROOKINGS INSTITUTION

Mr. BERGSTEN. Thank you very much, Mr. Chairman.

On the basis of the economic analysis which I present in my prepared statement, which I will summarize, I wind up disagreeing very sharply with the support of the import quota provisions of the Burke-Hartke bill, which has been expressed by the previous witnesses.

However, before I turn to that analysis, I would like to indicate there are two areas in which I am very much in agreement with them, and one area in which I go at least in part with them.

The first is simply to assert, because it is never said enough, that unemployment in this country is simply too high. We have an inadequate fiscal and monetary policy right now, and, therefore, the kinds of problems that are being brought before this committee are deeply exacerbated.

The second thing is that the present adjustment assistance program is grossly inadequate.

There can be no doubt about that. On the overall rate of unemployment and on the need to deal more effectively with unemployment caused by trade flows, I think I have no difference of opinion with the speakers that have been here today. The issue is how to go about it.

In my testimony, I will present a cost-benefit analysis of the two different ways of doing so. Through import restrictions of which the Burke-Hartke bill is the present contender, and indeed the most extreme approach proposed for many years; or the alternative approach, adjustment assistance.

Before I turn to that, I would like to make an analytical point which I think is important in considering the testimony made, particularly this morning by the AFL–CIO.

Almost every example that they cited of import penetration and job problems caused by imports related to foreign investment by U.S. companies, and analytically I think we have to make a distinction between imports which do arise from foreign investment by U.S. firms and those which arise through the normal course of trade flows without such investment.

The reason I say that is because the former class of imports really asks the question: Is foreign investment by U.S. firms in the national interest of the United States? The issue has ramifications for jobs at home and abroad, for the balance of payments, and for our foreign policy.

On the one hand, the multinational corporations argue that foreign investment increases U.S. jobs because, otherwise, the markets would be lost to competitors from abroad.

On the other hand, the AFL–CIO argues that all foreign investment exports U.S. jobs.

Now, obviously, both positions are extreme. What we need to know is where in between the truth lies.

On the one hand, if a good deal of jobs are exported through foreign investment which increases our imports, then I think there is a serious case to be made for taking a very hard look at the possibilty of restrictions on foreign investment. But the question is an empirical one, and, unfortunately, as Congressman Steele was bringing out this morning, we simply do not know the answer to that question.

The witnesses have been exactly right in saying that the Government has been derelict in its duty to bring forth that information. However, I would add that botb the corporations and the labor unions have been derelict in their duty to bring forth whatever information they could from their sides. In fact, it is true all three have vested interests and, therefore, are reluctant to generate data which might undermine them. We need information in which to base a rational policy on that particular issue.

In my testimony, therefore, one major caveat runs throughout in comparing the two alternative responses to jobs displaced by imports—imports restrictions or adjustment assistance. I exclude from my consideration those jobs which are lost due to imports generated by the export of American capital. That is not too bad a caveat at this point in time because, excluding the Canadian automative agreement, only

2 or 3 percent of total imports are generated as a result of foreign investments by U.S. firms. So, in quantitative terms, it is not too much of a caveat. The percentage is rising, however, and it is going to become more important over time.

So, with that major caveat, let me turn to my analysis. I will try to summarize my written statement so as not to take up too much of the committee's time.

Mr. CULVER. Without objection, your full statement will be inserted in the record after your summary.

Mr. BERGSTEN. As I say, there are two possible types of Government intervention in the area of trade policy: Import restrictions to protect workers and firms from the impact of imports, and assistance to help them adjust to that impact.

The policy choice must be made by comparing the cost-benefit ratio of each policy.

Estimates of the two options are necessarily imprecise, and some of the costs and benefits are unquantifiable. Nevertheless, we can develop orders of magnitude which will place the present debate on somewhat firmer ground.

An effective program of adjustment assistance is necessary if the United States is to preserve a liberal trade policy. There are several other requirements for such a policy, but none carries any costs to the national economy. The net benefits of adjustment assistance thus equal the net costs to the United States of a protectionist trade policy, which include both economic costs and threats to our national security. Similarly, the main benefit of trade restrictions is that they enable us to avoid the costs of adjustment assistance. A cost-benefit analysis of the two policy options can thus be based on an estimate of the costs of each approach.

I first turn to the economic costs of trade restrictions.

As we all know, trade restrictions reduce the efficiency of resource allocation within the United States. They thus retard the growth of our national income, and of higher paying jobs. The most obvious way in which they affect the economy, however, is by spurring inflation—by reducing the quantity and quality of goods which are available, and by promoting monopolistic pricing practices by U.S. industries.

Present U.S. trade restrictions already cover commodities which represent about $100 billion of U.S. consumption, and make up 15 to 20 percent of the entire Consumer Price Index. They are costing U.S. consumers at least $10 billion to $15 billion every year. It is not a one-shot cost; it is a cost which exists every year.

That raises the Consumer Price Index level by 1½ to 2 percentage points above where it otherwise would be.

The Mills bill of 1970 could have raised the Consumer Price Index by at least another full percentage point. And the most extreme protectionist proposal, the quotas proposed in the Burke-Hartke bill, would roll all imports back to the 1965–69 level. It could at least double the present consumer costs, and by itself offset completely the success of the present wage-price controls predicted by the administration.

These figures overstate the total cost of new import restrictions to the U.S. economy as a whole, because some of the consumer loss represents a transfer to the protected U.S. producers. It is impossible

to estimate this cost to the economy precisely, but a recent study of the sugar quotas concludes that they transfer to domestic producers about 36 percent of the consumer cost, leaving 64 percent of the latter as a net cost to the economy. If such a ratio applied to all products, the net cost to the U.S. economy of present restrictions would total at least $5 billion to $8 billion, and the additional quotas proposed in the Burke-Hartke bill would at least double that amount.

It is sometimes argued that the United States would derive the offsetting economic benefit of reduced unemployment from increased import restrictions. However, increased barriers to U.S. imports would not reduce U.S. unemployment. In fact, they would be more likely to increase it.

There are a number of economic reasons, without even going to retaliation, why import restrictions would cut U.S. exports, U.S. jobs, et cetera, and I lay them out in a footnote.

Under its international obligations, however, the United States would be required to negotiate tariff concessions to compensate foreign countries for the losses caused by any new U.S. quotas. This would increase U.S. imports of other commodities by an amount equal to the reduction in imports triggered by the new quotas, and offset any reductions in unemployment which they achieved.

The United States would not be able to offer compensation, however, because virtually all dutiable items would be controlled by the quotas. Other countries would thus be free to retaliate against U.S. exports by an amount equal to the cutbacks in U.S. imports, and we can be sure that they would.

There has been some discussion earlier today about whether or not retaliation would in fact take place. I would like to make two comments on that.

In the case of new restrictions on an individual product, particularly of a limited nature, there is not always direct retaliation of the kind we are talking about here. Even in that case, though, one has to be very alert to subtle forms of retaliation. I think it is quite conceivable that, if the United States had not moved in a protectionist direction since at least 1967, that we would have had somewhat less tightening of the protectionism of the common agricultural policy. These things are not always 1-to-1 items, but may be a result of subtle political forces within countries on both sides of the Atlantic and Pacific which lead to trade policy shifts in both countries.

The Japanese would not have considered retaliation against the tightening of the U.S. antidumping code, in the absence of the events of last summer, and thereafter: the measures of August 15, the textile ultimatum and, in this case, the U.S. political initiatives toward the Peoples Republic of China. In a nutshell, foreign political policy and foreign economic policy cannot be separated.

The other point is that the national pride of other countries would make it impossible for them not to retaliate at least in kind to a massive piece of protectionism, and this would reduce U.S. jobs. It would reduce them because U.S. exports are more labor-intensive than U.S. imports. So there is no offset through job creation to the inflationary costs of trade restriction, to the U.S. economy, nor would such restric-

tions provide any improvement of the U.S. trade balance—which is viewed by some as an independent policy objective.

Such costs are particularly critical at this particular time because of the difficulty we are experiencing in reconciling the two key goals of economic policy, full employment and reasonable price stability. Because of structural changes in the labor force, inflation now runs about 1½ percent higher—both at the full employment norm of 4 percent and at higher rates of unemployment—than it did just a decade ago.

In addition to this structural problem, the present cyclical situation combines unacceptably high unemployment and an unacceptable rate of inflation.

Because of the priority of the unemployment problem, both fiscal and monetary policy must be aimed at creating more jobs. But this means that selective policies must be found to cope with inflation.

The present wage-price controls are one such policy.

Another is manpower policy, to improve the productivity and mobility of the U.S. labor force, of which adjustment assistance itself is one example.

Another is a more liberal trade policy. The data already presented demonstrate that elimination of all present import restrictions would permit a one-shot reduction of 1.5 to 2 percent in the price level. Adoption of new protectionist measures would severely undermine the fight against inflation through boosting prices.

I have already indicated that the Burke-Hartke quotas could raise the price level by 1.5 to 2 percent, negating the gains of phase 2. All of these costs are experienced each year.

Now, this is in purely economic terms.

In addition, there are serious national security and overall foreign policy costs which stem from trade restrictions. I outline some of these in my paper, which I think I can summarize briefly by simply recalling that the minimonetary cases of May 1971, helped Senator Mansfield to come within eight votes of cutting U.S. forces in Europe by 50 percent, which would have had a rather devastating effect on U.S. foreign policy and indeed U.S. security.

The U.S. international economic offensive of August 1971, and the textile ultimatum a month later, have clearly helped drive Japan onto a potentially dangerous course which could lead through neutralism to major rearmament. The events of last fall raised economic issues to the top of the agendas for President Nixon's summit meetings with allied leaders last December, despite his preferences for talking about Peking and Moscow, and indeed forced a settlement of that very uneasy crisis.

New protectionist steps by the United States would exacerbate further these already delicate relationships.

In addition, the expanded European Community is currently deciding how to organize its economic and monetary future. It could either integrate within the framework of expanded cooperation with the United States and others, or it could do so in defensive reaction to U.S. efforts to promulgate a global dollar standard and build a protective wall around our market—complete with controls on U.S. investment and multiple exchange rates, which preserved Europe's trade competitiveness but prevented or at least discouraged foreign capital

from coming in. Whatever the economics of such an outcome, it would have a devastating political impact on overall United States-European relations because of its internal effects in both areas.

The risk is particularly high at this time, as the United States begins to experiment with a five nation balance of power foreign policy. In such an approach, the allegiance of the other powers is a primary U.S. objective to keep the balance tipped in our favor.

The high-risk economic policy of the present administration toward Western Europe and Japan is thus inconsistent with the basic tenets of its own overall foreign policy, which comes as no surprise to students of bureaucratic politics since different people are managing each.

A U.S. reversion to protectionist trade policies would further endanger alliance relations by encouraging the Soviet Union to step up its efforts to split the United States from Western Europe, and China to step up its effort to split the United States from Japan, and thus risk a decisive tipping of the balance against the United States.

So there are major, if unquantifiable, national security effects which add to costs which would flow from new U.S. trade restrictions.

Against these costs of restrictions one should then try to estimate the costs of adjustment assistance as the viable alternative policy.

Everyone can agree that the present adjustment assistance program has been grossly inadequate to meet the needs of firms and workers displaced by imports. I think Mr. Bernstein's eloquent testimony was essentially that he finds no disagreement with the concept of adjustment assistance, but simply that it has been ineffectively implemented.

If I may make one ad hominem reference to myself, in response to some of the ad hominem implications of this morning, I think I can take at least a limited degree of credit while in the White House for finally getting the adjustment assistance program working at all. As you know, the President broke a number of tie votes from the Tariff Commission in favor of adjustment assistance—in fact, most of the cases which have moved forward were based on those tie votes—for which I would be proud to take some credit.

It would be extremely misleading, however, to compare the cost of the present adjustment assistance program with the U.S. gains from avoiding trade restrictions in this cost-benefit analysis, since we all agree that a better program is needed.

Fortunately, the AFL–CIO has made an estimate of the costs of a viable program for workers: "At a minimum, approximately half a billion a year."

This apparently includes $425 million to retrain 167,000 workers annually, the federations estimate of "the net loss of jobs attributable to the disparity between the increase in imports and the increase of exports over the 3-year period, 1966 to 1969 * * *," plus an additional amount for relocation costs.

I have several criticisms of the way the AFL–CIO developed its figure; some because I think it overstates the amount, but some because I think it understates the amount. On balance, however, I come out concluding that the cost of a viable program would be about the $500 million for workers estimated by the AFL–CIO.

It overestimates because adjustment assistance can apply only to workers, who actually lose jobs not those who fail to find jobs because

imports are rising. The best estimate of actual job losses that we have due to imports—and I might say this comes from Mr. Eugene Stewart of the Trade Relations Council of the United States, which is not well known for its liberal position—is for the 1967 to the 1969 period job and averaged 60,000 persons annually. Mr. Goldfinger referred this morning to "scores of thousands of jobs," and three score would be 60,000, so I think we are in the right ball park with that kind of an estimate.

Those were years of extremely high growth of imports, as Congressman Whalen mentioned, due mainly to the rampant U.S. inflation, so I think it is a reasonable basis from which to start.

On the other hand, the AFL–CIO has erred on the low side, because it assumed that all workers could be retrained at the average cost which now prevails in the JOBS and MDTA institutional training programs, which is about $2,500 per worker. In fact, it may turn out that some workers cannot be retrained at all. They would have to receive compensation allowances for an extended period of time, as opposed to the one-shot cost of retraining.

For the future, the Department of Labor has estimated that average weekly cash allowances would amount to about $93 per worker under the present program, or $4,450 for a full year of such benefits. These allowances are higher than retraining or relocation costs, and thus provide a base for calculating the maximum per worker cost.

In the future, of course, the program will have to extend much more generous benefits. It might be modeled on the Railpax, later Amtrak, settlement, for example, which provides displaced workers with 100 percent of their last year's salary plus all fringe benefits, adding perhaps 30 percent to cost, for as long as 6 years. This would double the per worker cost of the present program, which pays 65 percent of the worker's last salary with no fringe benefits, to perhaps $10,000 annually.

Assuming that 60,000 workers lost jobs due to imports annually, that none could find other jobs without help, and that none could be retrained, the cost of the program would be about $600 million in the first year and level off at about $3.6 billion in the sixth year, as the 6-year benefits of the first group of workers expired.

This is, of course, the maximum possible cost. I will now try to make it more realistic.

The first caveat is that some percentage of workers displaced by imports would almost certainly find jobs elsewhere in the economy without help, at least within 6 years, which, as Mr. Bernstein pointed out, would cover about two full business cycles and thus include periods of aggregate full employment. Indeed, in 1970, 11 million U.S. workers—over 10 percent of the whole labor force—shifted jobs.

In 1965, when aggregate unemployment was still at 4.5 percent, imports in every single industry could have risen by at least 20 percent before the employment effects would have exceeded normal departures. In the average year of any 6-year period, it is highly unlikely that even one-half of these displaced workers would not find work on their own.This adjustment alone would reduce the program cost to about $300 million in the first year and a maximum of $1.8 billion after 6 years. It would still take care of many more than the 15,000 to

20,000 workers which the Department of Labor estimated would qualify under the liberalized access criteria proposed in the administration's Trade Act of 1969.

But it is also highly likely that at least some of the displaced workers could be retrained—and relocated, if necessary.

Using the AFL–CIO estimate, based on present retraining programs, this would cost about $12,500 per worker for 1 year: his $10,000 allowance plus $2,500 retraining cost, instead of $10,000 for each of 6 years. If one-half of those who could not find work by themselves underwent such training, the program cost would rise to $340 million in the first year—the $300 million in allowances and about $40 million for retraining and relocation—but climb to a maximum of only about $900 million in the sixth year.

Indeed, Mr. Bernstein would not make the allowances nearly that generous.

As I recall, he talked about 90 to 95 percent of wages, plus some part of fringe benefits for 3 years.

That, in fact, is very comparable with the final adjustment I will make.

If the increase were to, say, 90 percent of wages plus one-half of fringe benefits for 3 years, the steady State program cost would be about $500 million annually.

Surprisingly, this comes out—though by a quite different method—at roughly the same figure estimated by the AFL–CIO itself. It would represent a relatively modest addition to the $4.3 billion which the Labor Department estimates it will be spending on its overall manpower and employment services program in fiscal year 1973. In short, it would represent an incremental cost to the present manpower program of only about 15 percent.

So, I think, in both absolute terms and marginal terms, it could be regarded as a fairly modest cost, particularly when set against the enormous gains of a liberal trade policy which I tried to estimate earlier.

Now, in addition, of course, we have to estimate the possible cost of adjustment assistance to firms. That is even more hazardous.

The first three firms certified by the Department of Commerce under the present program received approximately $8 million. It seems unlikely that the program would even need to deal annually with more than, say, 50 firms at an average cost of $5 million each, for a maximum annual cost of $250 million. That is probably quite high.

In combination with the program for workers, this provides us with an estimated maximum cost of about $750 million for the overall adjustment assistance program for the future.

I thus conclude that even the costs of an ambitious and generous adjustment assistance program are far outweighed by the net economic and national security benefits which it would provide for the United States by permitting it to maintain a liberal trade policy. However, no amount of expenditure is justified unless it will work. And it is clear that the present program has been, as charged by its critics, "too little too late."

However, it is completely unjustified to write off the concept of adjustment assistance because of the past failures in practice. None of

the problems of the present program are inherent. Indeed, they are the highly predictable outcome of the U.S. political process which passed the current law in 1962—a revolutionary liberal concept was hamstrung in practice by extremely conservative eligibility requirements and benefit levels.

The beginning of actual trade assistance payments in 1969 led to a sharp increase in the number of applications—from nine in 1969 to 46 in 1970 to 71 in 1971 for workers alone—indicating both a great demand for the product and hope that it can help. Other countries, including Canada, the United Kingdom, and Sweden, have effective adjustment policies.

The United States must face the fact that it lags far behind the rest of the industrialized world in this area. We are the only major country with no industrial policy. We are far behind in developing manpower policies.

A variety of specific proposals exists. All require early identification of emerging problems. The Government can certainly help in this area, but much responsibility lies with business firms working with the representatives of their own workers. Perhaps we should emulate the Canadian example of requiring firms to provide advance notice of plant closings to maximize the opportunities for their workers to adjust in advance. Firms and workers should also be able to file joint petitions for adjustment assistance.

When a problem is perceived, rapid action and a new administration are needed to carry it out.

I think that Mr. Bernstein's windup sentence of his testimony is eloquent testimony that such a program could work. He didn't read the sentence, but I would like to do so in his stead.

He said, "If the U.S. Tariff Commission had the devotion, the decency, the application, and sense of duty of the Office of Foreign Economic Policy of the Department of Labor, there would be no need for my appearing before you today." He meant that somebody, if they care enough to do the job, can carry out an efficient program. I think that is eloquent testimony from somebody who has been the representative of workers in these cases for 10 years.

If that kind of program could be expanded, and there is no inherent reason why it can't, and when the maximum cost of such a program is set against its estimated benefits, then I think we can clearly see that it is in the national interest.

Mr. CULVER. Thank you very much, Mr. Bergsten.

(The prepared statement of Mr. Bergsten follows:)

STATEMENT OF C. FRED BERGSTEN, VISITING FELLOW, COUNCIL ON FOREIGN RELATIONS; GUEST SCHOLAR, BROOKINGS INSTITUTION

THE COSTS AND BENEFITS TO THE UNITED STATES OF TRADE ADJUSTMENT ASSISTANCE

There is widespread agreement within the United States that no individual should be forced to bear alone the cost of a national policy which benefits the population as a whole. Opposition to such an approach comes only from those who cling tenaciously to an absolute version of laissez-faire economics, and fear that any degree of government intervention equates to socialism. Particularly in a period of wage-price controls, we are already well past that point. Government intervention in our economy is a way of life, and the policy issue is its proper scope and implementation.

In the area of trade policy, there are two possible types of Government intervention: import restrictions to protect workers and firms from the impact of imports, and assistance to help them adjust to that impact. The policy choice must be made by comparing the cost-benefit ratio of each. Estimates of the two options are necessarily imprecise, and some of the costs and benefits are unquantifiable. Nevertheless, we can develop orders of magnitude which will place the present debate on somewhat firmer ground.

An effective program of adjustment assistance is necessary if the United States is to preserve a liberal trade policy. There are several other requirements for such a policy, but none carries any costs to the national economy.[1] The net benefits of adjustment assistance thus equal the net costs to the United States of a protectionist trade policy, which include both economic costs and threats to our national security. Similarly, the main benefit of trade restrictions is that they enable us to avoid the costs of adjustment assistance. A cost-benefit analysis of the two policy options can thus be based on an estimation of the costs of each approach.

THE ECONOMIC COSTS OF TRADE RESTRICTIONS

Trade restrictions reduce the efficiency of resource allocation within the United States. They thus retard the growth of our national income, and of higher paying jobs. The most obvious way in which they affect the economy, however, is by spurring inflation—by reducing the quantity and quality of goods which are available, and by promoting monopolistic pricing practices by U.S. industries.

Present U.S. trade restrictions already cover commodities which represent about $100 billion of US consumption, and make up 15–20% of the entire Consumer Price Index. They are costing US consumers at least $10–15 billion *every year*.[2] The Mills bill of 1970 could have raised the Consumer Price Index by at least a full percentage point.[3] The most extreme protectionist proposal, the quotas proposed in the Burke-Hartke bill, would roll all imports back to the 1965–69 level. It could double the present consumer costs and by itself offset completely the success of the present wage-price controls predicted by the Administration.

These figures overstate the total cost of new import restrictions to the US economy as a whole, because some of the consumer loss represents a transfer to the protected US producers. It is impossible to estimate this cost to the economy precisely, but a recent study of the sugar quotas concludes that they transfer to domestic producers about 36% of the consumer cost, leaving 64% of the latter as a net cost to the economy.[4] If such a ratio applied to all products, the net cost to the US economy of present restrictions would total at least $5–8 billion and the additional quotas proposed in the Burke-Hartke bill would raise it by a like amount.

It is sometimes argued that the US would derive the offsetting economic benefit of reduced unemployment from increased import restrictions. However, increased barriers to US imports would not reduce US unemployment. In fact, they would be more likely to increase it.

Under its international legal obligations, the US would be required to negotiate tariff concessions to compensate foreign countries for the losses caused them by any new US quotas. This would increase US imports of other commodities by an amount equal to the reduction in imports triggered by the new quotas, and offset any reduction in unemployment which they achieved. (Over time, even this swap would hurt US wages—and thus employment—by reducing the efficient allocation of our resources.)

The US would not be able to offer compensation, however, because virtually all dutiable items would be controlled by the quotas. Other countries would thus be free to retaliate against US exports, by an amount equal to the cutback in US imports, and we can be sure that they would. This in turn would *reduce* US jobs, because its exports are more labor-intensive than its imports. So there

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[1] For an analysis of the several requirements for achieving a liberal trade policy see C. Fred Bergsten, "Crisis in U.S. Trade Policy," Foreign Affairs, July 1971, pp. 633–5.

[2] C. Fred Bergsten, "The Cost of Import Restrictions to American Consumers," American Importers Association, March 1972.

[3] Counting only its explicit quotas on apparel and shoes, and making no allowance for the quotas on numerous other products which could have resulted from its so-called "basket provision."

[4] Ilse Mintz, "The Cost of U.S. Import Quotas," forthcoming. Incidentally, her estimates of the consumer cost of the sugar and textile quotas are significantly higher than my own.

is no offset through job creation to the inflationary costs of import restrictions to the US economy.[5] Nor would they provide any improvement for the US trade balance, viewed by some as an independent policy objective.

Such costs are particularly critical at this particular time because of the difficulty we are experiencing in reconciling the two key goals of economic policy, full employment and reasonable price stability. Because of structural changes in the labor force, inflation now runs about 1½ per cent higher—both at the full employment norm of 4 per cent and at higher rates of unemployment—than it did just a decade ago.[6] In addition to this structural problem, the present cyclical situation combines unacceptably high unemployment and an unacceptable rate of inflation.

Because of the priority of the unemployment problem, both fiscal and monetary policy must be aimed at creating more jobs. But this means that selective policies must be found to cope with inflation. The present wage-price controls are one such policy. Another is manpower policy, to improve the productivity and mobility of the US labor force, of which adjustment assistance itself is one example.

Another is a more liberal trade policy. The data already presented demonstrate that elimination of all present import restrictions would permit a one-shot reduction of 1.5–2 per cent in the price level. Adoption of new protectionist measures would severely undermine the fight against inflation through boosting prices. The Burke-Hartke quotas could raise the price level by 1.5–2 per cent, negating the gains of Phase two. All of these costs are experienced *each year.*

THE NATIONAL SECURITY COSTS OF TRADE RESTRICTIONS

Economic relations already assume great importance in the overall foreign policy of the US, particularly toward its allies in Western Europe and Japan. International economic transactions are essential to their economies, and thus rank near the top of their foreign policy agendas—so they must rank near the top of ours as well. The importance of economic issues in our international relations is rising rapidly due both to the rapid growth of economic interdependence and to the decline of military and "purely political" issues, with the widespread reduction in perceptions of the Soviet threat; the onset of US-Soviet nuclear parity; and the irrelevance of US nuclear might to much of its day-to-day international business. In addition, the growing economic power of Europe and Japan—both in absolute terms, and relative to their political and military power—induces them to place heavy emphasis on such matters in their dealings with us.

Memories need not be long to recall that the mini-monetary crisis of May 1971 helped Senator Mansfield to come within eight votes of cutting US forces in Europe by 50%. The US international economic offensive of August 1971, and the textile ultimatum a month later, have clearly helped drive Japan onto a potentially dangerous course which could lead through neutralism to major rearmament. The events of last fall raised economic issues to the top of the agendas for President Nixon's summit meetings with allied leaders last December, despite his preferences for talking about Peking and Moscow, and indeed forced a settlement.

New protectionist steps by the US would exacerbate further these already delicate relationships. In addition, the expanded European Community is currently deciding how to organize its economic and monetary future. It could either integrate within the framework of expanded cooperation with the US and others, or it could do so in defensive reaction to US efforts to promulgate a global dollar standard and build a protective wall around our market—complete with controls on US investment and multiple exchange rates, which preserved Europe's trade competitiveness but prevented or at least discouraged

[5] Even aside from retaliation, U.S. exports would decline as a result of U.S. import restrictions: foreign purchasing power would decline, U.S. competitiveness would be impaired, and U.S. exports which are components in the restricted imports would be eliminated. Some of these effects would even be *additional* to the retaliation effects. Similar effects, additional to the quota effects themselves, would occur on the U.S. side. So trade and welfare would fall by more than the cut forced by the quotas and retaliation themselves, and add to the net increase in U.S. unemployment.

[6] George C. Perry, "Changing Labor Markets and Inflation," *Brookings Papers on Economic Activity 3, 1970,* pp. 411–441; Charles L. Schultze, "Has the Phillips Curve Shifted? Some Additional Evidence," *Brookings Papers on Economic Activity 2, 1971,* pp. 452–67.

foreign capital from coming in. Whatever the economics of such an outcome, it would have a devastating political impact on overall US-European relations because of its internal effects in both areas.

The risk is particularly high at this time, as the US begins to experiment with a five-nation balance-of-power foreign policy. In such an approach, the allegiance of the other powers is a primary US objective to keep the balance tipped in our favor. The high-risk economic policy of the present Administration toward Western Europe and Japan is thus inconsistent with the basic tenets of its own overall foreign policy, which comes as no surprise to students of bureaucratic politics since different people are managing each. A US reversion to protectionist trade policies would further endanger alliance relations, by encouraging the USSR to step up its efforts to split the US from Western Europe and China to step up its effort to split the US from Japan, and thus risk a decisive tipping of the balance against the US. So there are major, if unquantifiable, national security effects which add to the costs which would flow from new US trade restrictions.

THE COSTS OF TRADE ADJUSTMENT ASSISTANCE[7]

Everyone can agree that the present adjustment assistance program has been grossly inadequate to meet the needs of firms and workers displaced by imports. It would thus be extremely misleading to compare its costs with the estimates just made of the US gains from avoiding trade restrictions.

Fortunately, the AFL–CIO has made an estimate of the costs of a viable program for workers: "at a minimum approximately half a billion a year."[8] This apparently includes $425 million to retrain 166,000 workers annually, the Federation's estimate of "the net loss of jobs attributable to the disparity between the increase in imports and the increase of exports over the three-year period, 1966 to 1969 . . . ," plus an additional amount for relocation costs.

However, the AFL–CIO figure is analytically misleading because it is based on *net* jobs lost due to a decline in the US trade *surplus*. Adjustment assistance must focus on *gross* jobs lost due to increased *imports*. There is no reason to think that workers displaced by imports will find jobs in export industries. Indeed, in view of the relatively small role of foreign trade in our economy, they are much more likely to find jobs in industries meeting domestic demand—or fail to find work because domestic demand is inadequate. This analytical error could bias the resultant estimate of the costs of adjustment assistance in either direction, depending on the state of the domestic economy. In the period discussed by the AFL–CIO (1966–69), it biases upward the number of workers needing help. These were years of buoyant domestic growth, in which aggregate US unemployment *declined* from 3.8% to 3.5%—the lowest rate since 1953. On balance, therefore, the total number of workers who lost their jobs due to trade in this period were more than absorbed elsewhere in the labor force.

Indeed, unemployment and the trade surplus usually decline together in the United States.[9] This is because the rapid growth which provides jobs also sucks in imports, and generates price increases which hurt our international competitiveness. There is little need for adjustment assistance (or any other specific manpower policies) in such a period of declining aggregate unemployment. So it is quite misleading to link a need for increased adjustment assistance—or import restrictions, the alternative approach—to a decline in the US trade surplus.

On the other hand, we know all too well that domestic economic policy is not always successful in achieving full employment. So we want to base our estimate on the *gross* number of jobs lost to imports in order to develop the *maximum*

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[7] This analysis is limited to *trade* adjustment assistance and the direct *trade* effects of proposed protectionist legislation, such as the Burke-Hartke bill. We simply do not know enough about the economic (or foreign policy) effects of foreign direct investment to analyze whether it is sufficiently in the national interest to warrant adjustment assistance for workers who lose their jobs as a result of the substitution of production abroad for U.S. exports. (If foreign investment by U.S. firms leads to U.S. imports, trade adjustment assistance of course applies.) The costs and benefits of expanding the adjustment assistance concept to domestic dislocations are outside the scope of this paper.

[8] *Needed: A Constructive Foreign Trade Policy*, Industrial Union Department, AFL–CIO, October 1971, p. 113.

[9] See Table 1. The only notable exception to this pattern was 1970–71, when the inflationary excesses of the preceding years caused an overvaluation of the dollar which has now been corrected.

cost of an effective adjustment assistance program. In deriving the "net job loss" cited above, the AFL–CIO used the BLS figure of 233,000—the increase in gross jobs which would have been required annually from 1966 to 1969 if imports had not been permitted to rise. A more recent estimate finds that import increases between the first quarter of 1970 and 1971 pre-empted the creation of 134,000 jobs, a somewhat smaller number.[10]

But these figures are also based on the wrong concept. Adjustment assistance applies only to those workers who *lose* jobs due to imports. It cannot be used to create jobs for those new entrants into the labor force who cannot find work because domestic production is not rising more rapidly in a particular industry due to imports; that is the job of domestic demand management. The best estimate of job *losses* due to imports finds that they totaled about 60,000 annually from 1967 to 1969, years of extremely rapid import growth which should therefore err safely on the high side.[11] We will use this figure to estimate the maximum number of workers who might require adjustment assistance annually in the future.

On the other hand, the AFL–CIO has erred on the low side because it assumed that all workers could be retrained at the average cost which now prevails in the JOBS and MDTA institutional training programs (about $2,500 per worker). In fact, it may turn out that some workers cannot be retrained at all. They would thus have to receive compensation allowances for an extended period of time, as opposed to the one-shot cost of retraining. The net budgetary cost of adjustment assistance in such cases is not the entire amount of the "salary" of the unemployed workers, however. It is only the incremental amount which the program would pay beyond any unemployment compensation and other benefits they get now (and beyond any negative income tax or otherwise guaranteed annual income which they might receive in the future).

Past experience with the adjustment assistance program provides some clues as to the possible magnitude of such allowances. Under the US-Canadian Automotive Agreement, about two thousand workers received allowances totaling $4.1 million over an average period of 20 weeks—an average annual rate of $5,330. Under general trade adjustment assistance, 2,500 individuals in fiscal year 1970 drew $2.8 million for an average duration of 16 weeks—an average annual rate of $3,340. For the future, the Department of Labor has estimated that average weekly cash allowances would amount to about $93 per worker under the present program, or $4,450 for a full year of such benefits.[12] Virtually all of these figures represent allowances, which are higher than retraining or relocation costs, and thus provide a base for calculating the *maximum* per-worker cost.

In the future, of course, the program will have to extend much more generous benefits. It might be modeled on the Railpax (later Amtrak) settlement, for example, which provides displaced workers with 100% of their year's salary plus all fringe benefits (adding perhaps 30% to cost) for as long as six years.[13] This would double the per-worker cost of the present program, which pays 65% of the worker's last salary with no fringe benefits, to perhaps $10,000 annually.

Assuming that 60,000 workers lost jobs due to imports annually, that none could find other jobs without help, and that none could be retrained, the cost of the program would be about $600 million in the first year and level off at about $3.6 billion in the sixth year as the six-year benefits of the first group of workers expired. This is of course the maximum possible cost. I will now try to make it more realistic.

The first caveat is that some percentage of workers displaced by imports would almost certainly find jobs elsewhere in the economy without help, at least within six years—which exceeds the length of the average business cycle and would thus include periods of aggregate full employment. In 1970, eleven million US workers—over 10% of the whole labor force—shifted jobs. In 1965, when aggregate unemployment was still at 4.5%, imports in every single industry could have risen by at least 20% before the employment effects would have exceeded

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[10] Lawrence B. Krause, "How Much of Current Unemployment Did We Import?" *Brookings Papers on Economic Activity 2, 1971*, pp. 422–3.

[11] Eugene L. Stewart, "Import Competition and Government Relief," *United States International Economic Policy in an Interdependent World*, Williams Commission Papers, Volume I, pp. 286–8.

[12] Department of Labor, "Adjustment Assistance for Workers," Williams Commission Papers, Volume I, pp. 386–9.

[13] Labor Protective Provisions of National Railroad Passenger Corporation (Railpax) Agreement Certified by Secretary of Labor James D. Hodgson, April 16, 1971.

normal departures.[14] In the average year of any six-year period, it is highly unlikely that even one-half of these displaced workers would not find work on their own. In years of full employment, most or all would; in years of high aggregate unemployment, more than one-half might not. This adjustment alone would reduce the program cost to about $300 million in the first year and a maximum of $1.8 billion after six years. It would still take care of many more than the 15,000–20,000 workers which the Department of Labor estimated would qualify under the liberalized access criteria proposed in the Administration's Trade Act of 1969.[15]

It is also highly likely that at least some of the displaced workers could be retrained (and relocated, if necessary). Using the AFL–CIO estimate, based on present retraining programs, this would cost about $12,500 per worker for one year—his $10,000 allowance plus $2,500 retraining cost—instead of $10,000 for each of six years. If one-half of those who could not find work by themselves underwent such training, the program would rise to $340 million in the first year—the $300 million in allowances and about $40 million for retraining and relocation—but climb to a maximum of only about $900 million in the sixth year.

It is also possible, of course, that the program would not be as generous as the Railpax settlement. In 1970, the House of Representatives voted to raise allowances only to 75% of previous wages, with no fringe benefits. If the increase were to, say, 90% of wages plus one-half of fringe benefits for three years, the steady-state program cost would be about $500 million annually. Surprisingly, this comes out—though by a quite different method—at roughly the same figure estimated by the AFL–CIO itself. It would represent a relatively modest addition to the $4.3 billion which the Labor Department estimates it will be spending on its overall manpower and employment services program in FY 1973. (Table 2 summarizes the cost estimates; the reader can then easily calculate alternative cost estimates by making his own assumption.)

Estimation of the possible cost of adjustment assistance to firms is even more hazardous. The first three firms certified by the Department of Commerce under the present program received approximately $8 million.[16] It seems unlikely that the program would even need to deal annually with more than, say, 50 firms at an average cost of $5 million each, for a maximum annual cost of $250 million. In combination with the program for workers, this provides us with an estimated maximum cost of about $750 million for the overall adjustment assistance program for the future.

The Effectiveness of Adjustment Assistance

I thus conclude that even the costs of an ambitious and generous adjustment assistance program are far outweighed by the net economic and national security benefits which it would provide for the United States by permitting it to maintain a liberal trade policy. However, no amount of expenditure is justified unless it will work. And it is clear that the present program has been, as charged by its critics, "too little too late."

However, it is completely unjustified to write off the *concept* of adjustment assistance because of the past failures *in practice*. None of the problems of the present program are inherent. Indeed, they are the highly predictable outcome of the US political process which passed the current law in 1962—a revolutionary liberal concept was hamstrung in practice by extremely conservative eligibility requirements and benefit levels. It is obvious that the US domestic economy and trade positions have changed dramatically over the past decade, and it is hard to even imagine that any such new concept could have been expected to work in practice for such a period.

Indeed, there is good reason to be optimistic. The workers who need adjustment assistance present far less difficult problems than most of those to whom our other manpower programs are aimed, because—by definition—they have

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[14] In many industries, the import rise could have been several thousand per cent without any displacement. BLS, "Foreign Trade and Employment," Williams Commission Papers, Volume I, pp. 503–6.

[15] Statement of George P. Shultz, Secretary of Labor, "Tariff And Trade Proposals," Hearings before the Ways and Means Committee, May 11, 1970, p. 593. He estimated a total program cost of only $40–45 million in the first year, implicitly assuming (with the AFL–CIO) that all workers could be retrained at a cost of about $2,500 each.

[16] Marvin M. Fookes, "Trade Adjustment Assistance," Williams Commission Papers, Volume I, p. 351.

been working, and have thus demonstrated desire and ability. Adjustment assistance was quite successful under the US-Canadian Automotive Agreement, when it was both easier to get and carried more liberal benefits. Other adjustment programs within our domestic economy, such as accompanied the creation of Amtrak, are widely accepted and are working. The beginning of actual trade assistance payments in 1969 led to a sharp increase in the number of applications—from 9 in 1969 to 46 in 1970 to 71 in 1971 for workers alone—indicating both a great demand for the product and hope that it can help. Other countries, including Canada, the UK and Sweden, have effective adjustment policies.[17] And no Administration, even the current one which deserves high credit for at least beginning to put the concept into practice, has really tried to develop an effective program and placed major priority on it in terms of either intellectual or financial resources.[18]

The US must face the fact that it lags far behind the rest of the industrialized world in this area. We are the only major country with no industrial policy. We are far behind in developing manpower policies. Our efforts to deal with an Appalachia, or with technological unemployment in the aerospace industry, have been completely ad hoc. One of the most profound implications of the changes both in our domestic economy, and in our world role, is that we must quickly develop an effective program to cope with these adjustment problems.

A variety of specific proposals exists.[19] All require early identification of emerging problems. The Government can certainly help in this area, but much responsibility lies with business firms working with the representatives of their own workers. Perhaps we should emulate the Canadian example of requiring firms to provide advance notice of plant closings to maximize the opportunities for their workers to adjust *in advance*. Firms and workers should also be able to file *joint* petitions for adjustment assistance.

When a problem is perceived, rapid action is then needed.[20] Both the eligibility and administrative requirements of the present law must be liberalized, perhaps along the lines recently proposed by Congressmen Fraser and Aspin (H.R. 13854). Assistance must be made available to entire communities as well as to individual firms and workers, and older workers must have the option of early retirement with incremental benefits. The administration of the entire program must be streamlined: within each of the different Federal departments, between those departments, and between the Federal government and the states. Top-flight people are needed to advise firms how to modernize or shift into new lines of production; perhaps trade adjustment assistance could draw on our immense pool of retired corporate executives, as indeed our foreign aid program has done for firms in less developed foreign countries for many years through the International Executive Service Corps. Enough money must be made available for a sufficient period of time. Both the quantity and the quality of the delivery system must, and can, be drastically improved.

CONCLUSION

The benefits of a liberal trade policy are extremely high for the United States today, in both economic and national security terms. They are growing rapidly in view of basic changes in our domestic economy and in our foreign policy. The benefits of avoiding additional import restrictions far outweigh the costs of a meaningful adjustment assistance program which is a necessary component of a policy which can do so. Indeed, the benefits to the US of eliminating its present trade restrictions also far outweigh the additional adjustment assistance costs which doing so would require.

There is nothing inherent in the previous shortcomings of the adjustment

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[17] See Roy A. Matthews, *Industrial Viability in a Free Trade Economy*, Private Planning Association of Canada, 1971.

[18] The classic example is the abysmal failure of the Department of Commerce to implement the imaginative eight-point adjustment program for the shoe industry ordered by President Nixon in mid-1970.

[19] For the most comprehensive proposals on trade adjustment assistance alone, see Fookes, *op. cit.* For a much broader range of manpower policy ideas, see Charles C. Holt et al, "Manpower Proposals for Phase III," Brookings Papers on Economic Activity 3, 1971, pp. 703–22, which concludes that a new set of manpower programs could reduce unemployment by 2.1 percentage points—creating about 1.5 million jobs—with no increase in inflation at a net budgetary cost of $8 billion.

[20] For example, Fookes, *op. cit.*, p. 353, notes that the process was cut from the normal 7–8 months to 70–105 days under the U.S.-Canada Automotive Agreement, and could be cut to 30 days if the Tariff Commission were eliminated from the process.

programs. Indeed, they are all remediable. The urgent need is for new legislation, and new Administration leadership, to devise such remedies in detail and implement them.

TABLE 1.—U.S. UNEMPLOYMENT AND THE TRADE BALANCE, 1958-71

	Rate of unemployment (percent)	Balance of trade (billions)		Rate of unemployment (percent)	Balance of trade (billions)
1958	6.8	$3.0	1967	3.8	4.1
1959	5.5	.7	1968	3.6	.8
1960	5.5	4.6	1969	3.5	1.3
1961	6.7	5.5	1970	4.9	2.7
1962	5.5	4.5	1971	5.9	−2.0
1963	5.7	5.3	Averages:		
1964	5.2	7.1	1960-64	5.7	5.4
1965	4.5	5.3	1965-69	3.8	3.1
1966	3.8	3.9	1970-71	5.4	.4

Source: Economic Report of the President, January 1972, pp. 223 and 298.

TABLE 2.—COSTS OF TRADE ADJUSTMENT ASSISTANCE TO WORKERS UNDER VARIOUS ASSUMPTIONS

	A	B	C	D
Variables:				
1. Jobs lost due to imports (thousands)	60	60	60	60
2. Workers who relocate without help (thousands)	0	30	30	30
3. Workers retrained	0	0	15	15
4. Cost of allowances per worker (thousands)	10	10	10	8
5. Duration of allowances (years)	6	6	6	3
6. Cost of retraining per worker (thousands)	0	0	2.5	2.5
Total cost (millions of dollars):				
1st year	600	300	337.5	277.5
Steady state	3,600	1,800	937.5	517.5

COULD AN EFFECTIVE TRADE ADJUSTMENT PROGRAM REDUCE THE CURRENT COST OF PROTECTIONISM?

Mr. CULVER. I have a number of questions here and one is with regard to your cost-benefit figures.

I wonder if you could address yourself to an aspect of the cost-benefit considerations that you at least didn't touch on in your oral statement and that would be the reduction in the current costs of protectionist figures in the event we were to implement a strong trade adjustment assistance program. You placed emphasis on the avoidance of future protectionist costs, but could you not also anticipate an immediate alleviation of pressure and protectionism of a certain level at least that would thereby reduce the costs currently attributable to protectionism?

Mr. BERGSTEN. Yes, certainly you could. If I had had time, I would have done a more thorough cost-benefit analysis of getting rid of present restrictions. The methodology is simple. One would have to look at the industries now protected—textiles, steel, et cetera—and then estimate what would be the cost for that number of workers.

It might not be as bad as we think. One of the major costs now, of course, comes under the oil import program. Oil is a very capital-intensive industry, without too much labor, so an elimination of that high cost range of quotas would not really require too much adjustment assistance.

On the other hand, the steel and textile programs would probably require more than the average amount of adjustment assistance to take care of the workers.

To be sure, it would depend critically upon the state of aggregate employment in the country at that time. If we were running at very low rates of unemployment in an aggregate sense, as in 1968–69, then a cushion is there.

It is speculative and I have not done the analysis in detail, but given the mix of the present controls—which include capital-intensive industries such as oil, dairy, sugar, and meat—along with the two or three which are laborer intensive, I would guess that the average cost of adjustment assistance for those workers would certainly be no more than the average cost that I have outlined in my analysis here.

So I think, again, the cost probably would not be all that great relative to the kind of gains we could get in anti-inflationary terms.

THE COST OF A NATIONAL MANPOWER PROGRAM

Mr. CULVER. Now taking this rough figure of $500 million that you pose as a rough estimate of a meaningful trade assistance program for workers, when you compare that against the total manpower training programs of our National Government, I think you use the figure approximately $3 billion, in that neighborhood.

Mr. BERGSTEN. $4.3 billion estimated for the next fiscal year.

Mr. CULVER. You talked in terms of $500 million being the incremental additional cost. Would it not be more rational to mesh the trade adjustment assistance program with our ongoing manpower programs so that in fact the $500 million figure if dovetailed properly into ongoing efforts in the manpower training and retraining field might disappear entirely or significantly be reduced through efficient administration?

Mr. BERGSTEN. Well, I would fully agree with that, in two respects. As the AFL–CIO points out in the Ruttenberg study, there is a priority conflict and an administrative conflict and, therefore, there must be waste.

I think you are completely right. I would expect some additional cost, because this would carry the program to a different set of workers under different circumstances, but I could quite well foresee savings on administrative overhead, and borrowing some of the techniques now utilized in the present programs for the trade adjustment assistance programs which would make them much more efficient in practice. So I would agree.

DATA NEEDS AND POLICY DECISIONS

Mr. CULVER. How is Congress going to resolve the statistical debate that underlies these questions that we have heard so much about today—the inadequacy of available analysis and information upon which to base an impartial judgment on reliable facts and information? I saw a very cogent letter by Stanley Ruttenberg in the Washington Post the other day making the point that none of

our statistics regarding the impact on trade or job opportunities are accurate or refined enough, and so I have two questions.

One, should we push in Congress for better data collection and dissemination, and second, do we have to hold any policy judgments until that task is complete?

Mr. BERGSTEN. Well, my answer to your first question is definitely yes. I would recommend that you push very hard. Remember, you have to also push hard with your colleagues on the Appropriations Committees. There have been proposals in the past for improvement of these and other statistics which are badly needed, and they have always fallen short because of failure to obtain appropriations. So from both the authorizing and appropriating sides there certainly is a need for a push in that area, and I certainly would hope that you could do it.

On the question of withholding policies, I think, it is a function of the degree of present lack of knowledge. As I said earlier, I think the present lack of knowledge on foreign investment is absymal. We really have very little knowledge of its effect on jobs, the balance of payments, et cetera. I, for one, would be very reluctant to make any policy recommendation at this point on foreign investment simply because I don't think we know enough.

When we don't know enough in terms of the data, I always fall back on first principles. There are generally the principles of economics 1, where pure theory suggests that a free flow of factors of production internationally as well as the free flow of goods under international trade is likely to maximize welfare. But I am quick to say that I would not necessarily be prepared to support that view to its extreme if some of the data on foreign investment came out as I suspect they might, so I would not want to make any firm recommendation on investment now.

On trade flows, I think we know enough to make sound policy. I think we know enough about the present trade restrictions, the gains of trade that do take place, to judge in broad magnitude the cost and benefits. I would be the last to say that the numbers I presented in our testimony today are precise, but I think they do provide defensible orders of magnitude and when those orders of magnitude come out as starkly different as they have on the costs and benefits we do have a fairly sound basis for policy.

THE INTERNATIONALIZATION OF ADJUSTMENT ASSISTANCE

Mr. CULVER. Turning to the question of who pays in terms of trade adjustment assistance. In the case of protectionism it is passed on to the consumer and it is hidden. But, when you start talking about trade adjustment assistance you are talking about the budgetary process and the naked exposure of increased budget costs allocated for this purpose.

Have you heard about any programs or arrangements whereby the exporting nation who is achieving the import penetration enters into, say for the sake of this discussion, bilateral agreements with the country that is experiencing the adverse impacts in exchange for a more acceptable quota arrangement with the country that is having the import difficulties. Thus, the exporting nation agrees to assume the

costs directly attendant to adjustment program to move the affected work force to more efficient lines of production. Wouldn't it be in their economic self-interest to make an arrangement of that kind since it is far more preferable than sustaining the total impact of denied access to that market.

I know that this can become a very sophisticated and complicated thing in terms of ways of assessing the costs on a bilateral basis, but I was curious to the extent you feel this may have any possibilities or if you are familiar with any particular trade problems where this type of approach has ever been utilized.

Mr. BERGSTEN. I am not familiar with any cases like that and my immediate reaction to it would be skeptical. I think it would amount in practice to a subsidy by the other country of its own exports. After all, giving money to the importing country to avoid trade restrictions there would really be an export subsidy by that other country which I think raises both practical and economic problems.

One practical problem I can think of makes me very leery of the idea from our national standpoint. What this would mean on an international basis would be that we, the United States, would pick up the cost of relocating all those European farmers that we want to see get out of farming through a liberalization of the common agricultural policy.

Given the fact that in most years we have been and I believe will continue to be, the possessors of a very large trade surplus, I think we on balance would probably wind up spending money rather than earning money from a program of that type. It would depend on what industries were covered that would tend to lose out under the program.

In fact, what you suggest as something to think about is not so different from foreign aid as now conceived. Indeed, we do export capital to less developed countries so that they can import from us and not have to go to the high costs of protecting their own industries and produce a wide range of industrial goods themselves.

So, in a sense, it is a kind of a foreign aid program which I doubt would be propitious in developing countries. It might be worth looking at in the case of particular industries, but I would guess that if the exporting country decided that it wanted to bear some of the cost to the importing country of increased trade flows that might be a better way to do it.

The Japanese have talked about limiting the volume of their exports, and I would think that probably would be a more practical and politically acceptable way of going about it.

THE ADJUSTMENT RESPONSIBILITIES OF THE MULTINATIONAL CORPORATION

Mr. CULVER. In addition to the foreign assistance program, there are other instances where we have intervened. For example, the problems of drugs from Turkey where we subsidized a program not to grow poppies, and, of course, the social fund in the EEC which is on a multilateral basis. Perhaps more thought should be given to this in terms of what kind of international understanding and funding could be worked out in terms of minimum adjustment assistance goals and allocation of costs in terms of regional plans. Well, in any event, here

again. I think there has not really been enough information or serious thought given to this issue.

What do you see as the appropriate role and responsibility of multinational corporations in adjustment assistance policy? Or, again, do you feel this issue is part and parcel of our total ignorance of the true nature of their role and their impact? Do you have any thoughts for us in that connection as far as the proper role and responsibility they may carry in this area?

Mr. BERGSTEN. Yes, I think we know enough about their operations to know what their responsibilities would be. They should be required to give advance notice as long in advance as possible of changes in their own investment and production plans.

Canada, under a 1968 law, has required Canadian firms to do precisely that in cases where they plan to invest abroad, or I believe even to change their procurement patterns.

One could bring retailers into it in a big way. Retailers probably have one of the longest leadtimes, though it may not be too long in all cases, of knowing when they are going to begin buying from foreign sources rather than from domestic sources. Perhaps they could be brought under some kind of obligation.

I certainly think firms themselves, who have more advance knowledge than anybody else, certainly more than the Government, need to be brought into this process in a meaningful way. After all, a free international economy is very much in the interest of these firms—I think the AFL–CIO was quite right in making that point. I think it is, therefore, their responsibility to play a role in the policies that will permit the maintenance of a liberal trade regime and, therefore, they should not regard as onerous at all this kind of action.

The great supporters of multinational firms praise the firms' ability to scan the market widely and make rational allocation based on their knowledge of the world market. Now, if they can do that, as I believe many of them increasingly can, they should also be able to tell their own workers what they are likely to do and, therefore, help the workers plan for themselves.

Another possible step that could be taken successfully in cases of import violation is that firms and workers could file joint petitions. We had the case outlined by Mr. Bernstein where the firm came in for adjustment assistance and nobody told the workers. They should be given an incentive to file together.

In the steel and textile industries they have certainly worked together for quotas, and I don't know why they should not work together for adjustment as well.

SHOULD WE HAVE A NATIONAL CONVERSION POLICY?

Mr. CULVER. One last question, Mr. Bergsten. Should adjustment assistance in your judgment be properly confined to trade-related dislocations or as in the case of some other countries should trade-related assistance be incorporated as just one aspect of strengthening domestic conversion policies?

Mr. BERGSTEN. I think it should be the latter. I limited my own analysis to the cost and benefits on the trade adjustment assistance

side, but a number of very sweeping proposals for improved manpower policies for the economy as a whole have now been published. I footnoted one of them and referred to it in my written statement, although I didn't mention it orally. A group at the Urban Institute made a study on the manpower training programs which they claim could reduce the rate of unemployment by over 2 percent without increasing the rate of inflation at a net budgetary cost of $8 million.

Now, that, I think, could be very impressive. There are some that are much less optimistic, but a thoroughly worked out and practically defensible set of proposals to that end has been made, and I certainly agree that if something of that order could be devised trade adjustment assistance should be rolled into it.

We certainly need better manpower policies as a result of the adverse shift in the unemployment-inflation relationship that I mentioned earlier and the increased structural problems we have in getting to full employment. Faint hearts are now talking about raising the acceptable norm of unemployment, which I think is a socially unacceptable step, but we need improved manpower and other selective policies to be able to avoid it. So I would fully agree.

If we could develop a widespread effort along these lines it seems to me one of the absolute top national priorities.

Mr. CULVER. Thank you.

Mr. Whalen.

THE ROLE OF THE TARIFF COMMISSION

Mr. WHALEN. Thank you, Mr. Chairman.

Professor Bergsten, would you agree or disagree with Mr. Bernstein's recommendation that we take away from the Tariff Commission the authority to consider adjustment assistance claims and establish this authority in a specially appointed Presidential board?

Mr. BERGSTEN. I would certainly agree with that. It was proposed in the administration's Trade Act of 1969, carried forward in the Mills bill, and I think that is a very minimum step that needs to be done.

I might say, though, that just doing that does not answer the problem in its entirety. There are problems between Government agencies, within Government agencies and between the Federal Government and the States, all of which need to be readdressed as a part of the adjustment assistance program.

HOW PROTECTIVE IS THE UNITED STATES?

Mr. WHALEN. It would seem to me that Mr. Bernstein, in making his presentation, assumed that the Burke-Hartke bill would not invite retaliation since the United States in his view, is less protective than other countries.

I know this is a very difficult question, but in your judgment are we more or less protective than our major trading partners?

Mr. BERGSTEN. As you say, that is very, very difficult to answer. I would feel more qualified to comment on the changes in protection which have taken place in the United States and other countries over the last several years.

Since about 1962 the number of items covered by quotas in the United States has risen from about seven categories to well over 80 categories. In all other major areas—the Common Market, Japan, the United Kingdom—those numbers have come down very rapidly. We have been going up while they have been going down.

In absolute terms, we now cover far more categories, including quotas and voluntary export restraints which have the same effect, than do any of these other areas.

The level of tariff restraints is about equal so the question turns on nontariff barriers. We clearly have more quotas than anybody else. I very seriously doubt that the nontariff barriers maintained by other countries are any greater than our own at this time.

I might add one footnote that this implies. It suggests that the net change in trade barriers over the last 10 years has helped our trade balance. Many people make the argument, and it was made again this morning, that increased foreign barriers have hurt the U.S. trade balance, but on any objective view of the change in trade barriers over the last 10 years we have added more and, therefore, improved our trade balance. So, in my view, one cannot look to changes in restrictive policies to explain the deterioration of the U.S. trade balance over the last 10-year period.

IS INFLATION A CONTRIBUTING FACTOR TO OUR DETERIORATING BALANCE OF TRADE?

Mr. WHALEN. Mr. Bernstein indicated that he felt that inflation was not a problem or contributing factor to our deteriorating balance of trade. Would you agree with that or disagree?

Mr. BERGSTEN. No; I would disagree very, very greatly with that.

You were certainly right, I believe, Mr. Congressman, in indicating that the increase of U.S. prices in the last 4 or 5 years has been far greater than that abroad. Even if it had not been, however, the rate of U.S. price increase might have led to a deterioration in our balance of payments. For one thing, the price elasticity on imports is higher in the United States simply because they represent a smaller part of our economy. So an equal price raise in the United States and Common Market will produce a greater increase in our imports than it will abroad.

During the early 1960's, when our trade surplus was burgeoning from practically nothing in 1959 to $7 billion in 1964, our rate of price increase was much less than that of other countries. So, in order to improve our trade balance we have to have a much lower rate.

One key element in recent years was certainly the rate of price increase. It led to the overvaluation of the dollar which led to the crisis of last fall and required the United States to devalue the dollar by about 10 to 12 percent. I believe that change alone, if preserved through proper domestic policy, will lead to a restoration of a very large trade surplus for the United States.

When we come back to this room 3, 4, 5 years from now, we may hear talk about dollar shortages rather than talk about eroding U.S. trade surpluses. I think one cannot overestimate the effects over the next several years.

Mr. WHALEN. I don't know what he meant by "when we return," Mr. Chairman, but we expect to see you back. I am not sure about the Chairman and myself.

One final question. Mr. Bernstein cited some of the regulations that the Federal Government imposes on domestic producers. I believe he suggested that it might be worthwhile to consider imposing those same regulations on producers of goods which we import. I would be interested in hearing any response you might care to make to that suggestion.

Mr. BERGSTEN. It raises practical problems. I have some sympathy for the principles enunciated by the representative of organized labor when they face competition from countries which don't observe any kind of labor standards, equality of racial treatment, whatever it may be.

However, all of those elements are deeply imbedded in foreign economies.

I might add to that the difference in tax structures which Mr. Bernstein also referred to, the VAT in Europe as opposed to our reliance on direct taxation. All of those elements are deeply imbedded in national economies. They are not new, they have been there for a long time.

As a result, just like wage costs, they have been deeply imbedded in the competitive position of the countries involved. In turn, they have determined the exchange rate relationships among the different economies. And if those exchange rates are right, then the different factors in each country—the tax system, the level of wages, the adequacy or inadequacy of labor standards—will be equated through the overall relationships between the two economies as manifested in that one price, the exchange rate.

It is true that abrupt changes in other countries may distort trade policy and trade flows, just as abrupt changes in U.S. practices would.

If another country was to abruptly lower its standards toward workers and go back to child labor, to take one example, that would have a serious effect.

In the absence of abrupt changes, I think that overall economic equilibrium encompasses all of those factors and provides a basis for international competition.

Mr. WHALEN. Thank you, Mr. Chairman.

Mr. CULVER. Thank you very much, Mr. Bergsten, for an informative and valuable contribution to the subcommittee hearings. We appreciate it very, very much indeed.

The subcommittee will now stand adjourned until 10 o'clock tomorrow morning.

(Whereupon at 4:10 p.m., the subcommittee adjourned, to reconvene at 10 a.m., Wednesday, April 26, 1972.)

81-022—72——10

TRADE ADJUSTMENT ASSISTANCE

WEDNESDAY, APRIL 26, 1972

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY,
Washington, D.C.

The subcommittee met at 10:08 a.m. in room 2172, Rayburn House Office Building, Hon. John C. Culver (chairman of the subcommittee) presiding.

Mr. CULVER. The subcommittee will now come to order.

Today the subcommittee begins its third day of hearings on adjustment assistance and its role in U.S. foreign economic policy.

Yesterday we had the opportunity to hear from the representatives of the workers who would be affected by adjustment assistance programs, and this morning we shall hear from representatives of business organizations.

At a later date we shall hear from representatives of industries which face a special threat in U.S. economic policy from increased import competition.

Our first witness is Thomas B. Curtis. Mr. Curtis is representing the Chamber of Commerce of the United States, but he comes here also as a respected colleague, and as an acknowledged authority in both domestic and international economics. As a distinguished former member of both the Ways and Means Committee and the Joint Economic Committee, he was a foremost analyst, exponent, and critic of economic legislation.

In addition, he played a very special and forceful role in the development, the passage, as well as the implementation of the Trade Expansion Act of 1962. We are therefore particularly pleased to have Mr. Curtis with us today.

In addition to Mr. Curtis, we shall also hear from Mr. Robert McNeill, the executive vice chairman of the Emergency Committee for American Trade, and Mr. David Steinberg, the executive director of the Committee for a National Trade Policy.

We shall begin this morning by welcoming Mr. Curtis.

STATEMENT OF HON. THOMAS B. CURTIS, FORMER MEMBER OF CONGRESS; VICE PRESIDENT AND GENERAL COUNSEL OF ENCYCLOPAEDIA BRITANNICA, INC.; MEMBER OF THE BOARD OF THE BOARD OF DIRECTORS AND CHAIRMAN OF THE SPECIAL PANEL ON FOREIGN TRADE POLICY, CHAMBER OF COMMERCE OF THE UNITED STATES

Mr. CURTIS. This is Mr. Nick Hollis, who is our executive director of our task force in the U.S. Chamber on Foreign Trade.

Thank you. It is a pleasure to be with my colleagues again, and I

welcome the opportunity to testify. May I have my full statement put in the record, and then I will probably skip over certain things to save time.

Mr. CULVER. Without objection, so ordered.

(The prepared statement of Mr. Curtis appears on p. 149.)

Mr. CURTIS. I am Thomas B. Curtis, vice president and general counsel of Encyclopedia Britannica, Inc. I am pleased to be testifying on behalf of the Chamber of Commerce of the United States, where I serve as a member of the board of directors and as chairman of the Special Panel on Foreign Trade Policy.

As I have introduced previously, with me today is Mr. Nicholas Hollis, the chamber's staff executive of the Foreign Trade Panel.

We appreciate the opportunity to appear before this important subcommittee, and we applaud your initiative in holding hearings on adjustment assistance and its relationship to foreign trade. During my years in Congress, as a member of the Ways and Means and Joint Economic Committees, I developed a deep interest in this subject.

Now, with the historical perspective of the Kennedy round and its aftermath, I am more convinced than ever that fresh congressional action is needed to design an intelligent approach to adjustment assistance within the context of the entire adjustment process and overall manpower development policy.

I would like to relate that to the Manpower Development and Training Act of 1962, which, I think, provides this kind of overall look. That particular act came from the coordinated work of two committees: the Ways and Means Committee, which had the problem of unemployment insurance, and the Labor and Education Committee, which, of course, had the field of training and retraining.

The national chamber recognizes the growing interaction between domestic and foreign economic policies, the importance of trade-related jobs to national employment, and the sharpening competitive pressures of our interdependent world economy. Many of our over 40,000 member firms and their employees are experiencing the direct effects of these changes, some of which are painfully dislocating.

For this reason, I am pleased to report that the national chamber strongly supports your House Concurrent Resolution 549 and is presently undertaking a study of trade adjustment assistance through the special panel which I chair. I hope we can report the findings of our investigations and recommendations back to this subcommittee and other congressional units by the fall.

Meanwhile, I would like to use this opportunity to discuss with you some of the panel's initial findings, with emphasis on adjustment programs of other industrialized nations.

I want to interject at this point a key economic question to resolve. Does automation or rapid technological advancement create more jobs than it destroys? We have avoided grappling with that issue. I think most economic evidence shows that it does create many more jobs than it destroys, but it also destroys jobs. There is a corollary to this economic truth that the more rapid the technological advancement, the more rapid or the greater increase of frictional, structural—and I even say institutional—unemployment. By "even institutional," I relate to the difficulties of our building institutions for the unemployed

to be adjusted. One of the great economic facts that has occurred in the recent decade that is frequently missed is the automation of agriculture, which threw out of work hundreds of thousands, literally in the low millions. This was heavily related to the blacks who were dependent upon agriculture.

Practically nothing was done toward identifying or early warning for this area of obsolescence through rapid technological advancement. And the failure to plan and so forth, to a large degree, I think, has created this problem.

Trade is only one aspect of this technological advancement. We surely see it there, but I think an error is made if we try to single out the impact of imports, for example, on this technological aspect of our economics, separate it out from the other causes, when it comes to the key question: What do we do about the unemployed?

I don't think it makes any real difference why a person is unemployed, whether it could be, as was the case a few years ago when we shifted from manned bombers to guided missiles and we had a heavy unemployment situation in the Northwest with Boeing. Well, this was a Government fiat and deserved similar attention. I would say that might be the case when we wanted to adjust because of imports or phasing out a domestic industry.

I would further point out a specific situation which came to the attention of the Ways and Means Committee when we were holding hearings on unemployment insurance back around 1958 and this really became the germ of the Manpower Development and Training Act. The hearings were held on experience rating of the unemployment insurance tax. The president of Pacific Bell was in testifying on behalf of it, and he used as an illustration of why it was good, the problem they had, when they shifted from the switchboard to the dial system.

He said:

> We found out we were going to throw hundreds of thousands of girls out of work in this process, so we went back to the drawing boards and we extended—instead of planning the transition over a two-year period, we made it a four-year period. We then projected our minds forward into the new skills that we were going to need, and we realized that we would need every one of our present employees.

So, instead of any instance of unemployment, they sent a mimeographed sheet around to their girls saying:

> Your job is phased out; however, we want you for an employee; we have a better job for you. We will pay for your retraining on the job.

Well, this suggested that this is great for a big company that could do this, but what about, it went through my mind, the wooden clothespin industry, which was the main support of a little town up in Maine? It was being phased out, they thought, by imports. Actually, I think it was more plastic clothespins and clothes driers, but certainly imports had an impact on it. But what could they do without some overall structure such as the Manpower Development and Training Act, where the same process could go on naturally with small companies that went on under the umbrella of a large company?

This is to underscore what we are talking about in our statement about tying us in with overall manpower development policy.

Let me, then, emphasize the reason why I think that the adjust-

ment assistance provisions of the 1962 act didn't work—and they really didn't—and why labor regarded them as somewhat of a sop, and I somewhat agree with them. In order to get whatever provisions there were for benefits under it, you have to prove that the job had been phased out because of imports. Well, this is a difficult thing to have to do.

The question is: Why should we have programs where you have to prove why you are unemployed? The key to the thing is that you are unemployed and we need to get them retrained and back into the labor market. And again underscoring whatever might be the cause, I think we make a mistake and have made mistakes by trying to force proving why you are unemployed in order to qualify you for whatever benefits and whatever program we set up.

Moving on, I wanted to point out examples of what other countries have been doing in this area of trying to adjust. I again emphasize technological advancement of which imports, of course, are a factor.

FOREIGN PROGRAMS OF ADJUSTMENT ASSISTANCE

Turning our attention to adjustment assistance programs of other major trading nations, we find a higher degree of evolution and sophistication than in the United States. Trade adjustment assistance aimed at cushioning economic dislocations attributable to international trade factors, as we know it, is difficult to find abroad. Instead, we discover broad, overall manpower policy approaches on an industry-wide scale without any attempt to differentiate between causes of economic disruption.

The problem is considered a structural one, to be handled in a total and rational approach to the industry's general difficulties rather than those of a single firm. This kind of focus allows foreign programs to be fitted more precisely to the nature and situation of the particular industry. And it avoids the tinkering of a program aimed at specific firms, which can change the competitive equation within industries.

One of the most recent such industry programs is a plan announced last May by the Japanese Ministry of International Trade and Industry to reorganize their textile industry. They are being phased out a bit because of quotas—U.S. quotas, I guess. The proposal, originally drafted by representatives of the industry, will involve a $34.4 million fund set up for the Government to purchase excess textile machinery. That is the industry aspect.

A premium will be paid for the machinery of firms that plan to move completely out of textiles. A $169 million "soft" loan pool has been established, with the Government funding the difference between the prime and discount rates. The third part of the plan is a "modernization" program to attempt to help the smaller firms group together so as to achieve more efficient and competitive production.

While the Japanese case is probably an unusual one with its high degree of government-industry cooperation, this is a revealing example of how an industry, beginning to experience difficulties, can draft a plan and closely coordinate with government in order to implement it quickly and effectively.

The second example is the one I wanted to refer to.

Foreign programs are also characterized by innovative use of financ-

ing. For example, in the 1950's, the European Coal and Steel Community program to phase out coal mining in Belgium and Luxembourg used revenues generated by a tariff on foreign coal to facilitate worker relocation and retraining. In other cases, adjustment programs have been financed by sales taxes applied to both domestic- and foreign-produced goods in the affected industry.

Let me pause on that point to make a further point relating to our own economy. We really mechanized a coal industry in our society back around the forties, I guess, or late thirties. I think the United Mine Workers went down from possibly 600,000 to a couple hundred thousand; actually the employment in the coal mining areas through this mechanization went down even more, which certainly enabled us to mine coal so efficiently that we actually lay U.S. coal down in Belgium and in the coal mining areas of Europe to the point where they phased out.

But, I would observe, our failure to anticipate this technological advancement in our society lies at the base of what we identify as Appalachia, and it would have been this early warning in saying and being prepared to do something that would enable the human element as well as the economic element to have been treated with much more intelligence.

This trend in industrialized countries has been visibly accelerating in recent years. In Switzerland, for example, between 1955 and 1965, the number of production units employing between 100 and 499 persons increased by 50 percent; and that of undertakings employing 500 persons or over increased by 47 percent; conversely, the number of one-man businesses fell by over 17 percent, and that of business employing two to three people declined 7 percent.

In the French sixth plan, the Government, commenting on the industrial policy for 1971–75, has indicated that rationalization of industrial structures constitutes an excellent means of improving industrial productivity. It emphasizes the regrouping of factors of production that have been poorly used.

In addition, it can buffer the market, preventing rapid penetration by competitive goods and guaranteeing against offers to purchase French enterprises with foreign capital.

Italy has an unusual mechanism for adjustment assistance, similar to the American Reconstruction Finance Corporation. It is now the fourth largest corporation in Europe and owns more than 140 joint-stock companies.

I want to put in another example: the International Coffee Agreement, which, in a way, I happen to have opposed, by the way, but nevertheless it did attempt to try to stabilize coffee prices, which was partly for the benefit of the coffee-producing nations. Some of the money that would be obtained from the maintenance of these prices was to be used and, I think, to some degree, has been used by Brazil in phasing out new coffee plantings; so that you have the adjustment assistance concept carried over into an agricultural area in this instance.

Of course, such an example would be unworkable in the United States, given our competitive system and antitrust laws. However, it is important to note how these systems operate in order to better

evaluate the competitive forces our own management and labor are facing in international markets.

Under "conclusions," I give one other specific reference which I think bears on this subject, a very important one because it is right here for us to look at. Our own experience with past adjustment assistance programs may also yield interesting guidance. For example, the Department of Defense economic adjustment and relocation programs for communities affected by defense installation shutdowns should be evaluated in the context of regional adjustment assistance.

While this Department of Defense program has no funds of its own, resources of other agencies are coordinated into an interagency system which is drawn together to help solve particular community problems arising from Department of Defense actions. Since many of these actions can be projected ahead of time, the interagency team can coordinate with the community in question, acting as an "early warning system."

One of the joint economic subcommittees looked into this several years ago, and I remember one of the examples was Decatur, Ill., where they were phasing out a big defense installation. The net result was no unemployment and actually—taking the testimony—that Decatur citizens had a healthier economic base than they had when they had the defense installation present.

A further example worth considering developed from the United States-Canadian Automobile Agreement. This program was known as the Automotive Products Trade Act of 1965, designed to assist U.S. workers displaced by shifting automobile production to Canada. Criteria for assistance were more flexible than regular trade adjustment assistance and, during the program's 3-year duration, 14 petitions were accepted covering more than 2,500 workers with payments totaling more than $4.1 million in allowances.

I personally don't regard this as too good an example of what should be done, because again you have to prove how the unemployment came about.

I have one other example to give to the committee which I think might be helpful. Back in the fifties, my wife and I sponsored a Dutch couple to come over to this country frankly to assist us in raising our five children, but the story was this: We would have the wife work in the household and I would get a job for the man. So when he came, I asked him what his occupation was, and he said, "A window dresser."

I said, "Well, what is a window dresser?" He said, "Well, that is one of the people that take these department store windows and fixes them up." I said, "Well, I don't know whether I can get you a job there."

It happened, though, one of my close friends was a Buster May, head of May Department Stores, so I called him up and I said, "I have got this Dutchman and I am trying to get a job for him." He said, "What does he do?" and I said, "Well, he says he is a window dresser, whatever that is."

He said, "When can you send him down?" I said, "Maybe next Tuesday or Wednesday." He said, "I mean today. Even if he just says he is a window dresser, we will employ him, because this is a very short skill."

So I asked Curt, "How was it you got to be a window dresser?" "Oh," he said, "the Dutch Government, realizing, after the fall of Indonesia, they were going to have to absorb a lot of people immigrating back into Holland and the economy not support them, they sent teams over to the United States to find out what the short skills were, and then they sent out notices to people like myself saying, 'Here are the skills that we will train you in and help you to immigrate to the United States'."

Incidentally, they included in that teaching them English if they were going to the United States or Portuguese if some of them went to Brazil.

The point, of course: I though, "Well, if the Dutch Government could identify the skills and demand in our society, why could we not be doing the same thing?"

This leads to my concluding remark of where I think a great deal needs to be done that has not been done is to improve the Manpower Development and Training Act. When it was put into effect, it required two essential tools. One was national jobs-available statistics along the line that the Dutch Government did. Let us find out if technological advancement does create more jobs than it destroys and where are these jobs?

Now, we have not to this day given this tool to the people who have to operate the Manpower Development and Training Act.

The second tool is really essential for the first tool to be effective. That is to keep the dictionary of occupational titles up to date or at least to ge the right concept of what it should be. It is a bound volume. The concept is that it should be loose leaf because the names of the skills coming in are not—there is not a common nomenclature. It is hard to identify them. Jobs-available statistics would not be usable in this whole business of adjustment assistance without this kind of dictionary occupational title.

So I would urge this committee to coordinate—and I know you are—with Labor and Education Committee in this area and also the Ways and Means Committee in unemployment insurance.

Thank you.

(The prepared statement of Mr. Curtis follows:)

STATEMENT OF HON. THOMAS B. CURTIS FOR THE CHAMBER OF COMMERCE OF THE UNITED STATES

I am Thomas B. Curtis, Vice President and General Counsel of Encyclopaedia Britannica, Inc. I am pleased to be testifying on behalf of the Chamber of Commerce of the United States where I serve as a member of the Board of Directors and as Chairman of the Special Panel on Foreign Trade Policy. With me today is Mr. Nicholas Hollis, the Chamber's staff executive of the Foreign Trade Panel.

We appreciate the opportunity to appear before this important subcommittee and we applaud your initiative in holding hearings on adjustment assistance and its relationship to foreign trade. During my years in Congress, as a member of the Ways and Means and Joint Economic Committees, I developed a deep interest in this subject. Now, with the historical perspective of the Kennedy Round and its aftermath, I am more convinced than ever that fresh Congressional action is needed to design an intelligent approach to adjustment assistance *within the context of the entire adjustment process and overall manpower development policy.*

The National Chamber recognizes the growing interaction between domestic and foreign economic policies, the importance of trade-related jobs to national

employment and the sharpening competitive pressure of our interdependent world economy. Many of our over 40,000 member firms and their employees are experiencing the direct effects of these changes—some of which are painfully dislocating.

For this reason I am pleased to report that the National Chamber strongly supports your H. Con. Res. 549 and is presently undertaking a study of trade adjustment assistance through the Special Panel on Foreign Trade Policy. I hope we can report the findings of our investigations and recommendations back to this subcommittee and other appropriate Congressional units by the fall. Meantime, I would like to use this opportunity to discuss with you some of the Panel's initial findings, with emphasis on adjustment programs of other industrialized nations.

IMPORTANCE OF ADJUSTMENT ASSISTANCE

We live in an era of accelerating technological change characterized by rapid change and "future shock". Inevitable political, economic and social dislocations seem more serious in this setting since they have become more difficult to foresee and have a widespread effect on greater numbers of individuals, communities and business. These realities of dislocation have produced enormous tensions and pressures. Governmental policies aimed at achieving full employment prompt government intervention to protect domestic jobs in industries under severe competitive pressure from abroad. Often such intervention in the market place costs the taxpayer considerably and inhibits technological innovation and competition which are the lifeblood of economic growth.

Nevertheless, the social realities or human cost of dislocations caused by technological innovation, changes in consumer tastes, natural disasters, government program changes, international trade and other factors, make it imperative for government to provide more effective remedies for temporary assistance to smooth the adjustment process when such dislocations do occur.

In the present hiatus in international economic relations, adjustment assistance takes on a vital new significance within a much wider perspective than simply trade dislocations. However, continued growth and expansion of world trade and economic development, particularly involving the poorer nations, may depend ultimately upon viable, smoothly functioning, adjustment assistance mechanisms in industrialized countries. Similarly, with our domestic challenges of sparking productivity and greater competitiveness, enlightened adjustment assistance policy may hold many answers.

BACKGROUND

Trade adjustment assistance, designed as an integral part of the Trade Expansion Act of 1962 (TEA) to help industries, firms and workers dislocated by imports linked to tariff concessions, has not worked well. One of the key reasons for the program's failure was the underlying assumption upon which the program was constructed—that import related dislocations could be separated and and treated uniquely from all other types of economic misfortune. Other major shortcomings such as administrative inefficiency, red-tape, and delivery problems are also evident. However, I choose not to dwell on criticisms of past programs. I am certain that Administration and other witnesses will supply ample testimony in this regard and I hope our own studies will turn up additional information in this respect for later review.

In 1962 there was general agreement regarding the need for an adjustment assistance program. Policy-makers recognized that substantial tariff reductions contemplated under the TEA, coupled with a tightening of escape clause criteria (making it more difficult to obtain relief), would bring economic discomfort to various sectors in the domestic economy through rising imports. However, the U.S. was in an enviable trade position with a large export surplus of $4.6 billion. Domestic production, profits and employment were rising. Consequently, adjustment assistance was designed for future contingencies which seemed far removed.

In forwarding the TEA to Congress, President Kennedy noted the adjustment assistance provision:

"This alternative will permit the executive branch to make extensive use of its facilities, programs, and resources to provide special assistance to firms and

their employees in making the economic re-adjustment necessitated by the imports resulting from tariff concessions."

At the same time, Luther Hodges, Secretary of Commerce, expressed the hope that adjustment assistance would not become "an indemnity or a franchise to remain non-competitive." It was regarded instead as a helping hand extended by government to firms that had either undergone dislocation or were threatened with it, firms with viable solutions to their predicament, but without the immediate resources to effect the solution. Adjustment assistance thus proceeded from the tacit assumption that trade expansion was necessary to the nation's domestic and international strength. Recognizing that expansion would inevitably bring some dislocations, particularly to smaller individual firms and workers, the government had a responsibility to aid the few who suffered for the good of the whole.

Unfortunately, the criteria for assistance proved so rigid that affirmative findings were practically precluded until recently. Even in these cases, judgments were rendered not on the overwhelming merits of the particular case at hand, but a re-interpretation of the subjective meaning of the criteria. Tariff Commission rulings in these cases have introduced the so-called "but for" principle. (But for tariff reductions, severe import penetration would have been avoided). In effect, this interpretation has softened the strict cause-effect relationship between tariff concession and injury.

RENEWED INTEREST

Since the Tariff Commission's modified interpretation in 1969, trade adjustment assistance has become the focus of considerable attention in many quarters. Although its abortive beginnings have earned it the deep distrust of organized labor and small business (which supported it in 1962), there is a growing recognition that imaginative programs in the adjustment assistance field must be seriously weighed as alternatives to widespread trade restrictions such as represented in Hartke-Burke legislation.

Recent evidence of rising interest can be seen in the following:

(*1*) *Relationship to pressures for trade restriction.*—Restrictionist pressures have moved the President to assist beleaguered industries and unemployed workers which point to imports as the primary source of their troubles. He has, for the most part, assiduously avoided using tariff re-adjustment or invoking import quotas. (In June, 1970, he called import quotas on shoes "inappropriate", but acted on a case that had been subject to a tie vote in the Tariff Commission and decided to approve assistance to workers in six Massachusetts shoe factories.) In this sense adjustment assistance has provided a badly needed "middleground" option.

(*2*) *Relationship to unemployment.*—In relation to a national industrial and manpower development policy, the President has directed HEW and the Labor Department to develop programs to upgrade and re-train workers in certain industries where there is unemployment. Little has been accomplished on this request so far, but additional pressures have been generated by the Roth and the Williams Commission Reports which emphasize a major overhaul of adjustment assistance as one of their key recommendations. Periods of economic slowdown with rising unemployment and reduced job creation place considerable strain on overall manpower development policies.

(*3*) *Foreign trade legislation.*—Several major congressional bills in recent sessions, including H.R. 14970 introduced for the Administration in 1969, H.R. 18970 (Mills, D.-Ark.), S. 834 (Javits, R-NY; Mondale, D-Minn.; Harris, D-Okla.), H.R. 13854 (Aspin, D-Wisc.) (which is pending), have proposed revisions and enlargements of the adjustment assistance process. These proposals have ranged from changing the wording, thru softening the "tariff concession-injury" link, to a whole new set of provisions.

(*4*) *Williams Commission.*—The most recent and complete review of adjustment assistance is found in the President's Commission on International Trade and Investment Policy (Williams Commission) Report. The recommendations are comprehensive and, in some cases, refreshingly innovative. The Commission proposes the adoption of a national manpower policy which would coordinate and supplement programs for anticipating and assisting adjustments to economic change arising from international trade and investment factors. The report includes a whole new scope of assistance for firms and workers as well as

the recommendation that anti-trust laws be reconsidered especially in regard to the rationalization of smaller firms. It also calls for a transfer of decision-making authority from the Tariff Commission to the Executive Branch. Strangely enough, after a set of proposals that seem to view adjustment assistance as a much larger economic problem (and to be treated as such), the Williams Commission calls for the creation of an office of Trade Adjustment to handle the coordination of these policies. This would seem initially to be a duplication of past errors for it is nearly impossible to separate dislocations caused by foreign trade competition from other economic factors.

(5) *Inter-agency studies underway in the Executive Branch.*—In preliminary meetings with members of the inter-agency adjustment assistance team, including Under-Secretary of Labor Lawrence H. Silberman, the Chamber's Panel obtained a glimpse of certain new approaches being considered by the Administration. For example, under consideration is an early warning system to provide advance notice for industries facing import pressure and possible dislocation. Such a program would assume close cooperation and coordination of information collecting between business, labor, and government. The use of such a system, especially if handled so as to provide interim aid between approval of application and implementation, could greatly ease many of the problems that stem from the "bureaucractic time-lag".

FOREIGN PROGRAMS OF ADJUSTMENT ASSISTANCE

Turning our attention to adjustment assistance programs of other major trading nations, we find a higher degree of evolution and sophistication than in the United States. Trade adjustment assistance aimed at cushioning economic dislocations attributable to international trade factors, as we know it, is difficult to find abroad. Instead, we discover broad overall manpower policy approaches on an industry-wide scale without any attempt to differentiate between causes of economic disruption. The problem is considered a structural one to be handled in a total and rational approach to the industry's general difficulties rather than those of a single firm. This kind of focus allows foreign programs to be fitted more precisely to the nature and situation of the particular industry. And it avoids the tinkering of a program aimed at specific firms, which can change the competitive equation within industries.

One of the most recent such industry programs was announced last May by the Japanese Ministry of International Trade and Industry (MITI) to reorganize their textile industry. The proposals, originally drafted by representatives of the industry, will involve a $34.4 million fund set up for the government to purchase excess textile machinery. A premium will be paid for the machinery of firms that plan to move completely out of textiles. A $169 million "soft" loan pool has been established with the government funding the difference between the prime and discount rates. The third part of the plan is a "modernization" program to attempt to help the smaller firms group together so as to achieve more efficient and competitive production.

While the Japanese case is probably an unusual one with its high degree of government-industry cooperation, this is a revealing example of how an industry, beginning to experience difficulties, can draft a plan and closely coordinate with government in order to implement it quickly and effectively. In Japan, as in the United States, the government makes the final administrative decisions and implements the plan. Nevertheless, this is a plan drafted *by* the textile industry *for* the textile industry. As such, it is bound to be much more capable of dealing with the ills of the Japanese textile industry than a general program of adjustment assistance might.

The administration of such programs is nearly always by a specially created *ad hoc* group possessing technical competence in the industry being assisted. In this Japanese case, it is the Textile Industries Structure Association which drafted the plan and which will be mainly responsible for major areas of the plan's implementation. Usually, the group that administers the plan is a combination of industry experts, interested parties and government officials. On rare occasions, this includes government agencies. And the program operates with a specific target date for phase-out. This type of cooperation between government and industry in drafting and overseeing industry-wide plans of adjustment assistance undoubtedly does much to increase the efficiency of the plan by encouraging free exchanges to mutual advantage.

One of the most important features of any successful adjustment program is a clear objective—an understanding of the nature of the changes affecting a particular industry and how the program will help industry and workers adapt to change in order to ease the dislocation and improve their contribution to the overall economy. Despite their lack of legislative guidelines, the majority of foreign readjustment programs have a clearer set of objectives than U.S. programs. Foreign adjustment systems are characterized by concrete goals such as raising production efficiency and marketing effectiveness or the re-employment of displaced workers into higher skilled, more modern industries. These goals are given effective focus by industrial re-structuring or rationalization, as it is commonly called in Europe. Rationalization involves the re-grouping of the industries into more efficient and productive entities. In some nations, substantial aid is extended if the industry re-organizes itself for greater efficiency. In more restrictive cases, where the government has tight reins on R&D funding, such allocations are often contingent upon rationalization according to government recommendation.

Foreign programs are also characterized by innovative use of financing. For example, in the 1950's the European Coal and Steel Community program to phase out coal mining in Belgium and Luxembourg used revenues generated by a tariff on foreign coal to facilitate worker relocation and retraining. In other cases, adjustment programs have been financed by sales taxes applied to both domestic and foreign produced goods in the affected industry.

Competitiveness is far more than modern plant and equipment. Often increased competitiveness is closely linked to size since larger industries can use machinery more efficiently—the economies of scale. Recognizing this, many foreign programs have concentrated on combining uneconomically small firms into more viably sized units.

This trend in industrialized countries has been visibly accelerating in recent years. In Switzerland, for example, between 1955 and 1965, the number of production units employing between 100 and 499 persons increased by 50%; and that of undertakings employing 500 persons or over increased by 47%; conversely, the number of one-man businesses fell by over 17% and that of businesses employing 2–3 people declined 7%.

In the French Sixth Plan, the government, commenting on the industrial policy for 1971–75, has indicated that "rationalization of industrial structures constitutes an excellent means of improving industrial productivity. It emphasizes the re-grouping of factors of production that have been poorly used. In addition, it can buffer the market, preventing rapid penetration by competitive goods and guaranteeing against offers to purchase French enterprises with foreign capital." (Unofficial translation)

Italy has an unusual mechanism for adjustment assistance. The Institute per la Ricostruzione Industriale (IRI) started out in the 1930's as a "hospital for sick companies" similar to the American Reconstruction Finance Corporation. It is now the fourth largest corporation in Europe and owns more than 140 joint-stock companies. IRI remains selective in deciding which companies to take under its wing, and maintains no responsibility to continue support for companies that consistently fail to turn a profit. However, IRI does offer the Italian economy a modern institutional instrument for industrial development capable of operating in numerous private sectors. Well capitalized, the IRI can undertake important activities that individual concerns cannot afford.

Of course, such examples would be unworkable in the United States, given our competitive system and anti-trust law. However, it is important to note how these systems operate in order to better evaluate the competitive forces our own management and labor are facing in international markets.

Another interesting feature of foreign adjustment policies centers on expanding rather than declining industries. Foreign programs are likely to provide government assistance to healthy firms in areas of high unemployment or induce growth industries to locate plants in such areas. In Germany, for example, "structural industrial policy" is beginning to focus primarily on the industries which promise rapid future growth, but cannot fulfill this promise within a useful time frame without governmental help. Industries such as aerospace, nuclear energy and electronic computers fall into this category in Germany.

In Europe, there is a wide range of means through which these various programs are implemented, both on the national and European Communities level.

Many of the programs are structured around some form of governmental assistance which spreads the cost of adjustment programs across a broad segment of the economy. Increasingly, as the programs are synchronized through Brussels under the Colonna Plan for Industrial Rationalization, the costs and benefits will be spread across the entire Common Market. This will provide a solid foundation for improving future competitiveness of European industry—an ominous harbinger in some respects which should not be lost on those who know the importance of balanced commercial relations across the Atlantic.

CONCLUSIONS

Recognizing the employment uncertainties, social mobility, and differing retraining capacities of various levels of the work force, it would probably be unwise indeed for the United States to scrap its existing programs and pattern new adjustment assistance measures on a "smorgasboard" of foreign ones. On the other hand, these programs should be studied carefully from the standpoint of overall manpower development policy if action to revamp U.S. adjustment assistance is contemplated.

Our own experience with past adjustment assistance programs may also yield interesting guidance. For example, the Department of Defense economic adjustment and relocation programs for communities affected by defense installation shutdowns should be evaluted in the context of regional adjustment assistance. While this Department of Defense program has no funds of its own, resources of other agencies are coordinated into an interagency team which is drawn together to help solve particular community problems arising from Department of Defense actions. Since many of these actions can be projected ahead of time, this interagency team can coordinate with the community in question, acting as an "early warning system".

A further example worth considering developed from the U.S.-Canadian Automobile Agreement. Tied in with the Automotive Products Trade Act of 1965, this Act was designed to assist U.S. workers displaced by shifting automobile production to Canada. Criteria for assistance were more flexible than regular trade adjustment assistance and, during the program's three year duration, 14 petitions were accepted covering more than 2,500 workers with payments totalling more than $4.1 million in allowances.

Viewed in the context of a comprehensive national manpower development policy, adjustment assistance should not be specifically or causally linked to foreign trade, or even more narrowly to import competition. How can one fairly differentiate among employee A who loses his job due to alleged import competition, employee B who loses his job due to a shift in consumer taste, employee C who loses his job due to a defense spending cutback, and employee D who loses his export-related job due to third-market competition? Clearly, there is a responsibility to try to relieve the human trauma in all cases and relocate the worker productively for the economic good of the individual and the community.

It seems likely that Congress will be pressured in the coming months to establish new and costly programs of adjustment assistance. This is one reason why the National Chamber is undertaking its study of the problem. We hope we will be able to present our findings to this subcommittee before legislation comes up for active consideration. However, we urge that your subcommittee meanwhile weigh very cautiously the proposals for a separate trade adjustment assistance program. A broad approach to the problem of economic dislocation is essential to achieve a coherent national economic policy. And improved coordination in national economic policy will be a prerequisite to strengthening our competitiveness and solving our international economic problems. An objective analysis of the import problem within the broader context is essential to achieve a balanced perspective. And, this perspective should give way to a recognition that adjustment assistance represents only governmental facilitation of necessary industrial reorganization and structural change—characteristics of an advanced technological society.

A NATIONAL INDUSTRIAL AND MANPOWER DEVELOPMENT POLICY

Mr. CULVER. Thank you very much, Mr. Curtis, for an extremely informative and useful statement. I think it is one of the very best that the subcommittee has received to date in this area, and particularly

in view of your very special personal background with the problems of manpower generally, and your previous work in the committees of the Congress dealing in these areas. It is very helpful to us indeed.

One of the most obvious developments that continually repeats itself in the course of our deliberations on this subject is also one of the main theses of your presentation this morning, and that is the necessity to consider the problems of trade adjustment assistance in the broader concept of an accommodation by any industrialized nation to the rapid problems thrust upon it through technological change, the interdynamics of the domestic economy, the alteration in governmental procurement policies, and so forth.

And this, I think we are all agreed, is more true in the case of the United States in terms of our total economic strength, relatively speaking, than most any other industrialized nation in the world.

Now, I find, Mr. Curtis, the first sentence on page 5 of your statement so stimulating that I have three questions to put to you about it, and we will take these one at a time.

First, you speak of "a national industrial and manpower development policy." We don't really have such a policy in this country in comparison with some of the other developed countries, do we?

Mr. CURTIS. No, we certainly don't, and let me relate it to another area of recent study. I was on President Nixon's Commission on the Voluntary Armed Force, and one of the areas I inquired into was: What about the old Manpower Utilization Board? Well, the thing is just not operating. We don't even relate the skills that the military need in relation to the skills that exist in the private sector. So you are quite right that certainly there is an overall problem.

REORGANIZATION OF CONGRESSIONAL COMMITTEES

Mr. CULVER. One of the problems that concerns me so much is the problem represented in President Nixon's effort to reorganize, for example, the executive branch of Government, to make sure that our administrative structure on the executive side of governmental problems is shaped and fashioned to more accurately mirror the true problems that the country faces and organized in an efficient fashion to deal with them.

It seems to me that these efforts would really be of little avail, even if they were successfully enacted and attempts were made to implement them, in the absence of a corresponding reform of the congressional structure of our committee jurisdictions so that we are dealing with these problems in terms of legislative oversight and consideration in a rationalized, harmonized fashion.

I think most of our committee structure is characterized, as you well know and as your testimony now attests, by too much duplication, too much inefficiency, and too much overlap. Also, I think our general committee structure mirrors and reflects the 19th century rather than the 20th in so many areas in terms of jurisdictional consideration.

Then, when we have these new problems thrust upon us—problems of economic conversion, problems of population distribution and growth, and problems of environment and health, and so forth, and other current examples—we are just not equipped to address ourselves to them in a rational fashion.

Now, you mentioned here, of course, the competing jurisdictions of various piecemeal, ad hoc, unilateral approaches to manpower training problems. The Defense Department, of course, has a number of committees organized to deal with the impact on communities of alteration in defense procurement practices, and so forth, and you talk about obviously the area of primary jurisdiction in health, education, and welfare, and now we are getting into this additional problem of the trade.

What steps do you think we in the Congress should be taking to move in the direction of encouraging this comprehensive sort of understanding? We have this proliferation of consideration, and really the consequence of it is, in short, a great amount of wasted money and bureaucratic inefficiency.

Mr. CURTIS. Well, you could not be hitting more on what is, I think, one of the key problems and important problems, because the Congress, in my judgment, does do a relatively good job in detail in specific areas.

But with the 21 standing committees in the House, they do tend to go to the depth as it relates to them, and there is no system of synthesis. One reason on the Republican side I worked so many years to create our study and research committee which I kept emphasizing is to bring about synthesis of what goes on in the individual committees.

Now, one of my first statements was to commend this subcommittee for looking into this subject. You can bring about some of the coordination if you identify and just do no more than identify what other committees have got of some aspect of your juridisdiction.

When I was listening, as I said, to the testimony of the president of the Pacific Bell, I thought well, what we really ought to be doing in unemployment insurance is, when a fellow's skill has become obsolete, it does not do any good to give him another 10 weeks of dole if, at the end of that time, the coal mines are not going to open up; we have to identify that he has an obsolete skill and get him to retrain and in a skill in demand.

Well, as soon as I said that to myself, I realized that that was not in the jurisdiction of the Ways and Means Committee. Well, I went over and talked to Elmer Holland, our former colleague, who is on Labor and Education. Elmer happened to be interested in this subject, and this is what really did happen with a coordinated effort on the part of those on Ways and Means who were interested and those in Labor and Education.

So some of that can be done, and I am sure to some degree it is being done. But I think your committee could serve a function by alerting these other committees to where they have a piece of this overall program and thus maybe ending up in the kind of approach that would give us the answers.

Another example, in an entirely different area, going back to Ways and Means, we had jurisdiction, as you know, over the big highway program because it was the question of how you financed it and the highway trust fund. But Public Works was, of course, the ones who were experienced in the real aspect of building highways.

Well, we created an ad hoc informal subcommittee consisting of Ways and Means people and Public Works, and this, I guess, is still in existence, although it is not too well known.

I think we need to develop more of these kinds of techniques, but I know of no better committee than the Foreign Affairs Committee to serve this coordinating role. We tried to do it again in the Republican research and development by creating task forces with members of various committees that had dealings with the subject matter.

So I think you are hitting a very keen thing and also hitting at a point where this committee can be a tremendous help and really come out with the proper solutions.

OECD MEETINGS AND THE GATT

Mr. CULVER. Mr. Curtis, with your extensive background in international trade negotiations, I am sure you are quite familiar with the operations of the OECD and are aware of the fact that there is at this very moment a high-level trade group including Ambassador Eberle from this country, which is in the process of laying the groundwork in at least a tentative way for the far-reaching trade negotiations which might commence next year.

I was wondering whether or not your particular organization has done anything by way of bringing to the attention of Mr. Eberle's office the importance that you place on trade adjustment assistance. And to press upon them the importance in the negotiating instructions for our U.S. representatives to these trade talks with the OECD so that we can get the necessary impetus within the industrialist nations of the world generally.

I was in Europe last week, and I met at the OECD with the people involved in adjustment assistance and also with representatives of the Common Market involved in the administration of their trade adjustment assistance programs, and it seems to me that strong U.S. leadership within the OECD discussions at the present time would be extremely useful to try to give adjustment assistance the appropriate priority.

Mr. CURTIS. I fully agree with that statement, but this gives me an opportunity to raise a caveat and one which I have raised in the chamber committee that I chaired just last week. I am very concerned lest we, in our efforts to use OECD as the forum to resolve these things, cut in under GATT and, in effect, render it ineffective.

Then I point to an even more serious thing——

Mr. CULVER. Excuse me. Could you spell that out for me?

Mr. CURTIS. Yes. Well, GATT is—and has been, I think, although it is supposed to have been temporary—certainly for the past post-World War II years, has been the primary forum for advancing in our international trade negotiations and liberalizing trades, moving forward into these things that increasingly are significant—non-tariff-barriers as opposed to the tariff, getting into such things as adjustment assistance, and so on.

Now, here is what I am worried about: When I first served as a congressional representative of the GATT—and I think that was 1957—I found that you could not get on the agenda of the GATT any of the problems of the less-developed countries. It was the industrial countries that were doing the deciding.

To a large degree this is what was the thrust that stimulated the cre-

ation of UNCTAD, and yet UNCTAD has been relatively a debating society; there are no real economic decisions made there. And one of the key advancements, I felt, in the Kennedy round—there were several, but one of them was that we had on the agenda LDC's, we also had agriculture and also tariff barriers.

Now, the LDC's are getting more active in GATT. Some people argue that is one reason GATT is no longer useful, because there is this "one country, one vote" situation in the GATT. I am concerned lest OECD make the same errors of trying to solve the problems of the less-developed countries through their decisions. This bears directly on adjustment assistance. I served on the Peterson Commission on Foreign Aid, and I almost resigned from the Commission because of the difficulty of getting the Commission to relate aid to trade. I said if aid is to mean anything, it is to get countries on their economic feet, just like welfare is to get people on their economic feet.

So it is not just a slogan to say, "trade, not aid," but if they are going to trade, that is going to require adjustments in our society, and there are some real hard realities.

Well, we finally in the Commission, in our report, gave some reference to it but not the important reference that I think should have been in there to say you cannot talk or you should not be talking about foreign aid apart from trade.

So it comes back to your question here. I worry about OECD, the developed countries making these decisions without getting some kind of fair input from the LDC's.

ADJUSTMENT ASSISTANCE AND LDC'S

Mr. CULVER. I think that is an excellent word of caution for us.

I was impressed with your statement on page 2, where you speak of the interest of the poor nations in a meaningful adjustment assistance program for the industrialized nations. To that extent, of course, this would be one area where the OECD preoccupation with this problem would be relatively appropriate because after all it is essential, and it would be a direct benefit.

Mr. CURTIS. If they will do it with some input from the LDC's. Sure, they have to be involved, but I don't think you can solve other people's problems without having them involved and letting them feel that they have an opportunity to express themselves.

Mr. CULVER. Absolutely. I think perhaps, Mr. Curtis, what you are suggesting for us—and I think it is a very excellent suggestion—that if we are going to be able to implement the Pearson report on economic development, which suggests effective adjustment programs to make room for the exports from LDC's, then I think that we probably should be thinking of doing that in a cooperative way with UNCTAD and the OECD. I mean getting them interested in giving consideration to how, in a mutual way, we could be helpful.

Mr. CURTIS. Mr. Hollis has just told me that GATT has been working on the gathering of an adjustment assistance scheme in various member countries. I don't know to the extent, but I am glad to be able to report that our committee, even though the chairman didn't realize it, is also looking at this. Certainly it is right along the line of our discussion here.

What I was saying, I don't want to downgrade the importance of OECD. I am tickled to death they are getting in it. I am just worried lest we run into a similar thing that we found had developed in the GATT and really, I would say, brought about UNCTAD's creation. I am glad UNCTAD exists, but we still are not getting at the solution of these important problems that we have to think about. And it is interesting how his committee, taking an important segment like adjustment assistance and examining it, leads into this kind of discussion that we have developed here.

Mr. CULVER. Thank you, Mr. Curtis. Mr. Whalen.

Mr. WHALEN. Thank you, Mr. Chairman. I am delighted to welcome our former colleague to the hearing this morning.

Mr. Chairman, I just would like to say, from my own personal standpoint, that Mr. Curtis is extremely knowledgeable in many areas of legislation. However, from my own experience, I have found him to be one of the most thoughtful and knowledgeable Members that I have met in this Congress in the specialized areas of foreign trade and domestic taxation.

So we appreciate your coming here this morning, Mr. Curtis, and giving us your insights into the matter of trade adjustment.

Mr. CURTIS. Thank you.

INTEGRATION OF TRADE ADJUSTMENT ASSISTANCE WITH MANPOWER PROGRAMS

Mr. WHALEN. From your testimony, it is quite evident that you feel that we should integrate trade adjustment assistance with our other manpower retraining programs. Is that correct?

Mr. CURTIS. Yes; I think it is very important that that be done. It does not mean that you would not have maybe as a part of this something deliberately that relates to imports. I am simply saying it would be unfortunate if we didn't give adjustment assistance or retraining because people could not prove how they got unemployed. I just don't think it makes any difference.

ADMINISTRATION OF ADJUSTMENT ASSISTANCE

Mr. WHALEN. I agree. I think your point is extremely well taken. We have had others appear before the subcommittee who have made recommendations as to how the trade adjustment assistance applications might better be handled. I am just wondering, in the light of your views, would you recommend that in achieving this overall integration, we do away with that portion of the 1962 act that provides for hearings before the Tariff Commission?

Mr. CURTIS. Oh, yes. In fact, big labor has taken the position, as I understand it, that this is a sop. Now, I agree with them, because it was unrealistic. Of course, I must say, in defense of it, the Adjustment Assistance Act of 1962 would relate to what would happen after the negotiations in GATT.

Well, for years, of course, we had no results, so, of course, we were not going to have damage from it. But the attack on the adjustment assistance provision began while the negotiations were still going on—that aspect of it.

But washing all that out, yes, I think it is a mistake. What I think the approach should be is to look to see what mechanisms we have. I mentioned the Manpower Development and Training Act. Incidentally, there are others that need coordination. You get apprenticeship training in the Department of Labor. You have vocational labor in HEW, and the two groups hardly speak to each other. I mean there are just all sorts of programs hitting at what is an obvious real problem of training and retraining, structural unemployment, but no overall coordination.

I think the Manpower Development and Training Act provides the best umbrella. I think it could be done, the full coordination could be done under that.

This committee, in pursuing this aspect of it and doing the coordinating, if this should turn out to be the fact, what I have said might well recommend it.

Mr. WHALEN. It is a point well taken. There would be no question, then, as to how specific unemployment was achieved or how it came about. Thus, we are not spinning our wheels trying to determine the answer to that question.

Mr. CURTIS. That is right.

Mr. WHALEN. I would take it also, Mr. Curtis, that while we have had several witnesses recommend that we establish a presidentially appointed board such as that which exists under the United States-Canadian Automotive Agreement, you would be opposed to that?

Mr. CURTIS. Yes. I think that was just making it a little bit easier on the thing but made the same mistake. After all, technological advancement sometimes phases out in industry. Take steel. It thinks that its big problem is imports. Well, again, it aggravates it, but anyone taking a look at it says that aluminum, plastics, and so forth, are really part of this problem. So in the cotton textile industry, the man-made fiber coming in, the permanent press of clothes, these are some of the technological advancements that have created the problems—problems of progress. But they are, nonetheless, real and are costly in terms of human as well as equipment.

But, on the other hand, they can be anticipated to some degree, to be phased out. I think this abrupt cutting off is a mistake but, on the other hand, I remember what I still think was a bad vote of mine on subsidy for the lead mines, and they said to me, "Well, we want to have this so that these ineffcient lead mines can phase out." I said, "Well, what I am scared of is that you will end up by using it as a floor to stay in." Well, that is what happened all right.

So I think that it is important to not relate this to separate industries. Now, that is what they did with the Canadian Auto Treaty; they tried to treat this as an industry, and thereby you don't look to see, well, maybe this industry is phasing back a bit and, if so, the jobs that are created are elsewhere.

I would come back to a key thing, and you, with your great experience in economics and a trained economist, can help. We have not grappled with this question or at least answered it so that people agree. Does automation create more jobs than it destroys? There are those who will admit it when you pin them down but then will go

argue, go on another premise. If it is true—and I happen to think it is—then it simply is saying that we got a heck of a big job in this frictional and structural unemployment, and we better get to it. I don't think we have gotten to it yet.

LEVELS OF ASSISTANCE

Mr. WHALEN. The present law provides, of course, that the workers receiving adjustment assistance receive a certain percentage of the average pay. In integrating this with our comprehensive manpower training program, would you retain that feature, increase it, apply it to all retrainees, or how would you handle this?

Mr. CURTIS. Well, the umbrella should be, in my judgment, the unemployment insurance program, of which I always thought the Manpower Development and Training Act was an amendment and a very essential amendment. At the time we put the Manpower Development and Training Act in—I think I am about right on this—all but 10 States would kick a guy off unemployment insurance.

One of the advancements resulting from the Manpower Development and Training Act was that today at least all 50 States permit people to stay on the unemployment insurance rolls until then, but I think it is important to use that—and I am glad I can clarify this—use the unemployment insurance program as your base, because then it does have the private sector paying to some degree for this, and I personally think that it should be paid for as much as possible in the private sector, which this would permit, and then you add that.

So what benefits should be related to this overall? And I relate it to: What benefits does a man need if he is 50 years old and is phased out of his skill? That is a tougher job than someone 25, and we probably need more money for that man. He has got a problem where maybe he can't move geographically, where others can.

We got into this, I might say again, in Ways and Means, another place to look at it, when we got into disability insurance, because the discipline we put in there was that anyone getting it had to report in to rehabilitation centers, because the rehabilitation people say, in a pitiful way, there is no one who can't be rehabilitated.

This leads to another basic economic thing, because some of the people say, well, maybe automation creates more jobs than it destroys but it renders certain people economically useless. That is also not true; it is quite the reverse. Automation creates more specialization and thus permits people who are economically unusable 20 and 30 years ago, because of a handicap, mental or physical—they can now be used.

But as we look at that, we know there are more costs associated with this. Yes, I would put this together and I would relate the benefits to the needs. You are trying to get people on their economic feet, and it is whatever is necessary. Believe me, that puts someone from the red side of the ledger over on the black side economically, so the costs are recouped many, many times over. But, with the program that is scattered all over the place, we just don't have this kind of logic applied to it.

Mr. WHALEN. One final question, Mr. Chairman. Mr. Curtis, I know that this subcommittee—and I think this applies to all of the Members of the Congress—are concerned about the effect of multinational corporations and our international trade posture on jobs. I just wondered, has the panel which you have chaired, or the U.S. Chamber itself, made any study in this connection?

Mr. CURTIS. Yes, we certainly have, and we are most anxious to get these studies out in the open where they can be discussed, because my own judgment is that just like automation creating more jobs than it destroys, our multinational corporations are creating many more jobs domestically than they may be taking away.

I think the economics will show that our capital does not go abroad to get cheap labor to ship in; it goes abroad to develop the markets abroad. Nor am I worried about this so-called shipping our technology and our advanced knowledge abroad.

Again, this, I think, on proper study, shows just the reverse. We gain a great deal more. The reason we were able to market computers abroad is that we had an economic use for computers in this country. So the brain drain which people abroad point to is, in my judgment, a real thing; only it is the other way—going into this society, not going out.

Mr. WHALEN. Has that study been released?

Mr. CURTIS. Nick, would you tell them about the study? We have several ongoing studies, but we have made two reports that I know of.

STATEMENT OF NICHOLAS HOLLIS, STAFF EXECUTIVE OF THE FOREIGN TRADE PANEL, CHAMBER OF COMMERCE OF THE UNITED STATES

Mr. HOLLIS. Mr. Congressman, the initial findings of our multinational enterprise task force have been released; the preliminary report was released in mid-February. And that study did substantiate that U.S. international corporations have increased their domestic employment in the United States as a result of their international operations over the past 10 years. It also substantiated that they increased their exports from the United States and, because of this, have produced more employment than the average U.S. corporation.

We are going to release the overall study within the next several weeks. I am sure we will be happy to send copies to the committee members.

Mr. WHALEN. Mr. Chairman, I wonder if we could insert or incorporate this initial study as a part of the hearings in the record with unanimous consent.

Mr. CULVER. Without objection, so ordered.[2]

Mr. WHALEN. Thank you, Mr. Chairman.

Mr. CULVER. Mr. Fraser.

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[2] See U.S. Chamber of Commerce Report "United States Multinational Enterprise," 1972, on page 416 of the appendix.

MANPOWER POLICIES AND UNEMPLOYMENT

Mr. FRASER. Thank you, Mr. Chairman. I am delighted to have our former colleague with us. He had a distinguished record in the House. Your effort in this area shows the same kind of talent and ability that you demonstrated in your congressional work.

I am very much taken with your description of the problem of trade adjustment. I have come to share the view that you express that the trade adjustment should not be isolated from other causes of unemployment, whether it is technological change or domestic competition, conversion problems and shifts in Federal spending.

I want to push this a step further, though. The economists, particularly some that are associated with the Administration, are now saying that 5-percent unemployment in this country may be the lowest realizable level of unemployment without moving to a level of economic activity that will be inflationary.

We used to talk about 4-percent unemployment as a floor and now there is some suggestion it may have risen.

The thing that I have been struck with is that in the 4 or 5 percent unemployed one finds a lot of human problems, the most dramatic of which have been the plight of the young blacks in the ghettos, where the unemployment rates are running 40, 45 percent and even higher.

The difficulty I have with conventional manpower approaches is their emphasis on training or retraining and income support during the period of training or retraining but they do not seem to deal with the problem of how you get below the 5 or the 4 percent of unemployment without this unacceptable inflationary pressure or overheating of the economy which brings on its own severe problems for the country.

This is illustrated by the higher level of unemployment. I had a meeting of manpower people in my area. They made the point that the current manpower programs, whether it is the JOBS program for training marginal employees or the apprentice programs, or the welfare, the WIND program, putting welfare workers through a work training effort, that these were band-aids and that you were training people for jobs when there were too few jobs. In other words, why are we training people when there are already more people than there are jobs?

Mr. CURTIS. That is right.

PROGRAMS TO PRODUCE JOBS

Mr. FRASER. I attempted to have you respond at this point, but maybe I can push this a step further. Increasingly the literature about the Third World development problems is saying that no longer should we direct our primary target at growth. Economic growth as a means of achieving higher levels of employment is no longer a realistic possibility for solving the massive unemployment problems in the Third World, where they experience unemployment 20 to 30 percent and higher—higher than we had in the depths of the depression.

What has been suggested by these economists or development economists is that we begin to target on jobs as an objective and let growth be a secondary or incidental factor. You may get growth if you can figure out a way to get jobs, but the jobs become the primary objective. I am beginning to come to the same conclusion with respect to the United States economy. We need to stop using growth as the primary objective with the idea that if you generate enough economic activity, you will pull people into the economy and create the necessary jobs. We should reverse our priorities and say that our responsibility as a nation is to see that those who want to work must have an opportunity to work. Maybe public service efforts or perhaps more imaginative alternatives by the private sector as the means of developing jobs are the answers.

Let me sum up my position: I am sorry for this long dissertation, but I wanted to give you the background of it. In your judgment, in dealing with the problems of dislocation as a result of external competition and accepting your premise, as I do, that we have a lot of other reasons why people are out of work, do you think that it might be an acceptable proposition in American society that job-creating should be a primary responsibility of Government, whether it is accomplished through public sector or private sector activities and that this is what we should aim at rather than putting all of our attention on monetary and fiscal policies designed to stimulate economic growth, with jobs then being a secondary consequence?

Mr. CURTIS. I don't agree with the conclusions, but I sure agree with the thought processes through which you are going, but I think there are other answers back along the way that have been ignored and are being ignored by this same school of economists, who, in my judgment, have messed this thing up and now want to mess it up further by not going back and doing their homework.

That is why I said to Mr. Whalen I think the key question that we must not beg and zero in on: Does automation really create more jobs than it destroys? Because there are a lot of people who, after this, say yes, it is true; then we will go on, on these other premises.

I reject this theory of a 5-percent unemployment rate being acceptable. I don't agree with it. I didn't agree with the 4 percent. I did say: As long as we neglected early warnings like we might have in phasing out or mechanizing agriculture, we might have done it over a longer period. We certainly ought to have identified ahead of time that we were going to render hundreds of thousands of people—their skills whatever they were—useless.

Yes, I share your criticism of these job programs, both Federal and State, and so forth. That is why I said the Manpower Development and Training Act has never had two essential tools—that were written in, by the way; one was jobs-available statistics. For Pete's sake, there is no sense in training people, as you well say, in skills that are already overcompensated or oversupplied in the labor market.

There are many of these programs that will train youth, particularly young blacks, in skills that are obsolete at the time they are training them. So why don't we get jobs-available statistics?

I regret to say this administration has given much the same kind of

lip service and the Department of Labor to this as the previous ones. I remember when Mr. Wirtz used to come down and I would keep asking him the same questions.

Then the other tool, you have got to have this dictionary of occupational titles. It is wonderful just to take a look at the thing if you want an exercise in humility. Take it and then flip it open to any page and then start reading some of the job titles and you think you are reading Greek—"Can these really be jobs?" Yet they are; I have tested it out many times.

I remember when they finally came out updating the 1958 with the 1965 edition and I looked in the area of medical skills and hospitals and so forth. Well, it was Greek. I sent it out to some hospital people and I said, "Are these real jobs—the titles?" They wrote back and said, "Well, yes, but these jobs are obsolete now."

Until they get the idea that this has to be a looseleaf thing and really keep up on it, we are going to still have all our manpower training programs operating under tremendous handicaps.

My answer is, again, that if we will go back and do our homework in these areas, I think we will find that it is true that automation creates more jobs than it destroys. We will find that it does not render certain people economically useless; the contrary will show up, I think. But this is all theory that needs backing up, because I could be wrong. We have not done this. Then, with that kind of thing, relate our training programs to this kind of knowledge, go back to my Dutchman and what the Netherlands Government did. They sent people over in our society and they identified window-dressers as being a tight skill, and they were sure right. I never even heard of the name "window dresser." This is the area that I think we will probably come up with correct answers.

Mr. FRASER. Your ideas are very useful. My own impression is that there is progress being made in computer banks and they are hooking them up between the various centers. But whether we can do better in identifying——

Mr. CURTIS. May I interrupt? I wish this committee would double check. The last thing I have seen on the dictionary of occupational titles is almost useless. Now, how can you have computers, idiot input and idiot output, if you don't have the intelligence to put in. I ask, if the Department of Labor is not keeping up with the dictionary of occupational titles and using the concept of looseleaf, how can there really be progress?

Mr. FRASER. I accept that. We need to do better. I am not enough of an expert to be able to either agree or disagree with the lack of effectiveness that you describe so graphically.

Let me come back, though, to this point: Let us say that we do have a good inventory, a good catalog of job titles, a good early warning system. We will detect shifts in employment better and will be able to beef up our training programs. It is still a fact that in the traditional ways that we have tried to fine-tune the economy, we use the device of fiscal and monetary authority to accelerate and decelerate the economy.

Mr. CURTIS. That is right, and those "fine-tunes" don't work too well.

Mr. FRASER. In the most recent case, they didn't work. We slowed the economy and increased unemployment; inflation kept going.

Mr. CURTIS. That is right.

Mr. FRASER. But there is no reason to believe that we are going to abandon those ways of fine-tuning the economy or even rough-tuning it.

Mr. CURTIS. Yes; I think we do, because I think fundamentally they are in error. For example, you have increased consumer purchasing power and you have got the savings rate going up; never has it been as high—8.4 or some percent. You have got a new economic factor in this society of discretionary income, a greater and greater percentage of individual income and its purchasing power is discretionary. That is important. That means people can make it in the investment dollar instead of the consuming dollar. That also means that they can hold off spending, which is what they have been doing.

So a program that might have worked 20 years ago and probably did, particularly with our Government budget being an "around the earth, around the sun," type proposition, which was a stupid thing in the first place, plus other errors where we did have a lack of consumer purchasing power, you might have been able to crank up the economy by putting more money in consuming purchasing power. And there are certain segments where you can enhance consumer purchasing power and it will yield results, but this is passé for the most part. This is the same group of economists that is arguing for this kind of approach which fails to grapple with structural and frictional problems.

METHODS TO SIMULTANEOUSLY FIGHT INFLATION AND PRODUCE JOBS

Mr. FRASER. I am tempted to ask you, though, what you would have done if you had been President in 1969. You are faced with a full-employment economy; you are down to 3½ percent unemployment, which was the lowest in several decades. The President used traditional braking methods.

Mr. CURTIS. That is right.

Mr. FRASER. Sharpening up on credit, making it more dear. You are suggesting it didn't work?

Mr. CURTIS. Yes; because I think the unemployment problem is structural and frictional, and let me add, institutional unemployment. I think that ought to be accepted. I used the concept several years ago in the Joint Economic Committee, referring to the blacks, because it is not just the fact that they have been thrown out of work because of obsolete skills but also because of institutions like labor unions and other institutions in our society where you don't have this adjustment coming about.

Mr. FRASER. But let me make the point that the options the administration had were quite limited. They could either go the traditional route in slowing the economy down and lowering inflation or they could have gone to a wage-price freeze——

Mr. CURTIS. No, but what you are saying is that they had options in the macroeconomic area. That is not where the problems were. We have neglected the micro area so long, we have created some built-in

institutional and structural problems. It takes a little time to unfreeze.

Now, you asked me what I would have done. I would have started right in the very beginning in this thing in the Manpower Development and Training Act. I would have gotten our dictionary of occupational titles up to date. I would have gotten job-available statistics. I would have moved in, in more of these areas.

Mr. FRASER. But in the meantime, inflation would have marched on, the dollar increasingly in trouble overseas.

Mr. CURTIS. No.

Mr. FRASER. In other words, you are arguing that if you had increased labor mobility and labor training in relation to job availability, you would have taken some of the steam out of the problem that came from people not qualifying to fill the jobs that were open, but I am not really trying to argue that point. I am only saying that in the years ahead, even if we really have a good manpower system in the terms you describe it, we are still going to have administrations of either party using the traditional monetary and fiscal controls to either speed the economy or slow it down.

Mr. CURTIS. I said I hope not, because I think that these are the wrong remedies. You say, if they do do this, then they still will have to. I am willing to concede you might be right, because we have never tried it, but isn't it about time we tried it?

Mr. FRASER. I have to say for myself that the only other choice that I would have seen if I had been President would have been wage-price controls. That obviously raises problems in the short term. In the long term, you might be right. But, in the short term, to stop an inflationary trend that had been running for 2 or 3 years in the face of the weakening of the dollar overseas and all the other problems that inflation brings, the administration really wanted to act decisively, and a long-term investment in improved manpower capabilities would not bring inflation to a halt within the short term.

Mr. CURTIS. I think it would.

Mr. FRASER. Let me put the proposition to you this way: Do you think Americans would be willing to contribute 3 to 4 percent of their income for the purpose of putting everybody in the country to work?

Mr. CURTIS. Well, if they were meaningful jobs. I happen to think they are meaningful jobs that people could be employed in if we structured this thing properly. I think it is a tragedy——

Mr. FRASER. So do I, but I see the Government as one of the channels for the creation of the jobs.

Mr. CURTIS. I think the Government has fouled it up frankly and, if the Government would stop fouling it up, the thing is going to work. There are areas the Government can help.

Mr. FRASER. That is the way we got down to 3½ percent unemployment. One of the reasons we got to 3½ percent was massive military expenditures.

Mr. CURTIS. Don't forget the employment aspect. We put a lot of guys in uniform. This is one of the things we neglected after Korea. There was concern about unemployment. We were phasing some 1½ million people out of military jobs into civilian jobs, and we are hopefully going to do the same thing here.

This is not the kind of employment I recommend. I think that if we will do our homework in the basic field of economics, we will find that the jobs are there. All the time they are talking about unemployment, and these are figures to look at; we have been increasing jobs in the past decade by about a little over a million a year. Now, where are those jobs coming from?

Incidentally, a greater percentage of our population—and I think it is now around 61 percent—is entering the labor market, so there are more people. This is one aspect. I have got another, where I think we have a lot of leisure time we can use well. We need an 11-month year and, when we get the 11-month year, we ought to have the 7-year sabbatical. This is proper use of human manpower, I would argue, and actually increases productivity.

We have allowed the macroeconomists to dominate the national dialog, in commerce, in industry, in the executive department, and I think they have had their day. I think it is about time we started looking at some of these details that I think collectively it is harder work but collectively will show that this is true.

The key question—I again say, don't beg it—let us look at it: Does automation create more jobs than it destroys?

Mr. FRASER. I have no problem with that; I agree with that.

Mr. CURTIS. No; I think if you will analyze your theory, you really don't quite believe it.

Mr. FRASER. Yes, I believe it.

Mr. CURTIS. Well, then, what——

Mr. FRASER. We are still not getting the black in the ghetto employed today. That is the only point.

Mr. CURTIS. And it is important to know why we don't, and, as we dig into why we don't, I think we see some of these very solutions that I am trying to bring to the attention of the committee.

Mr. FRASER. Thank you. Thank you, Mr. Chairman.

Mr. CULVER. Mr. Burke.

Mr BURKE. Thank you, Mr. Chairman. I would like to welcome you back, too, Mr. Curtis, and I might say that we miss you on our side of the aisle. I wish you were back in the House with us.

In your statement, you mention the so-called—I believe you referred to it, anyhow, as the bureaucratic lag—in connection with the Manpower Development and Training Act.

Mr. CURTIS. Yes.

THE BUREAUCRATIC LAG IN DELIVERY OF BENEFITS

Mr. BURKE. How can the Congress really do anything about that so-called lag you call the—bureaucratic lag—in connection not only with the Manpower Development and Training Act, but with any other legislation that we have with the size of the bureaucratic group, let us say, that we have in our agencies today?

Mr. CURTIS. Well, the Congress has two essential functions, of course, and so much emphasis is placed on the legislative function that we tend to forget the equally powerful area of oversight. Here we wrote a law, and here it requires that they develop jobs-available statistics. I don't think we spelled out the dictionary of occupational titles, but it is such an obvious corollary.

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in areas where they have not organized. This would require them to stir their stumps and go and get unions organized if they believe in that approach, and I happen to believe in it. So this is big labor as I see it.

Incidentally, note how big labor unions have declined from 17 million members in AFL–CIO to 14 million, with a labor force that has grown from 40 million to 80 million. And the big chunk of labor remains in unorganized and in small unions.

So when we talk about management in this society, we usually talk about some of the big companies. But, fortunately, the base of our economy is not these dominant ones but it is the small- and the medium-sized businesses. Although we need to pay more attention to it, I would observe to make sure that it remains there. These are not the companies that are giving up or rather getting lazy because they are sitting on top. That is my answer at any rate.

LABOR MOBILITY

Mr. BURKE. Thank you. Now one other question. In connection with the Manpower Training Act, I have always agreed with your suggestion that there be a dictionary of skills and training within the need for the jobs. The thing that concerned me about that was that it would cause dislocation or, let us say, relocation of entire families from one area to another, and there has been nothing suggested in the Manpower Training Act to compensate for that move.

Mr. CURTIS. It might require it, and my answer is: Where it does require it, this is the place to put the money. You get these people on their economic feet; they go onto the black side of the economic ledger, not the red side. This is good capital investment. I don't mind spending money if I know what the results are, and I think here you would see good results, but, also note, that there is a discipline in the Manpower Training Act. You cannot spend money if you don't have a job in sight, and this is another reason why that has not really moved in lots of money. And I am glad it has not under existing conditions but it could move if we would improve it.

Incidentally, we did amend the Manpower Development and Training Act; it requires a yearly report back to the Congress because we were not sure how it would work. They reported one year and said, "Look, can't we spend money on vocational training until we teach them English and arithmetic even though that is the kind of thing that does not lead immediately to a job, because we have got functionally illiterate people."

And the Congress' answer was, "Yes, of course; but still tie it, though, to training for a job in being. If you have to teach them to speak English and know arithmetic first yes, you could still spend the money," and you could under the Manpower Development and Training Act.

Mr. BURKE. Thank you very much. Thank you, Mr. Chairman.

Mr. CULVER. Thank you very much, Mr. Curtis. I think your contribution has been valuable for the committee's consideration of the problems in this area.

I do have a number of other questions but, in view of our time problems, I wonder, with your permission, if we could perhaps submit them to you and you would answer in writing at this point.

Mr. CURTIS. I would be most pleased to. Our committee at the Chamber is available to help get data from industry that this committee wants. Any way we can help, we are anxious to, because we just think it is great that you are doing this work.

Mr. CULVER. The one point that I would like to underline that you have made here, is the great problems that we face today in the Congress to devise responsible public policy responses to our problems in the absence of any reliable data and information in terms of the traditional problem areas you cited. In addition, there are new problems—the impact of the multinational corporation, the kind of technological changes that this brings and what the genuine impact of these activities actually is in economic terms. We are relying necessarily on information that is provided from sources that have a several interest base, which in many cases desires only to advance their own case. We don't have any real impartial sources of responsible and information. This is something, I think, too, that by way of our own committee recommendations we can take a much harder look at.

Second, it seems to me that one of the other major problems that we keep encountering in terms of an effective manpower program is in this area of early warning systems—the mechanisms whereby we can involve the private sector through Government cooperation to anticipate these dislocations and in economic terms of cost efficiency as well as human terms of minimizing the human problems of dislocation.

It is absolutely essential, I think, in a fundamental, institutional way, for us to equip ourselves to deal more effectively in this regard. We stick to the classic adversary notion, at least theoretically, of business and labor and Government. We have seen repeatedly where not only does the left hand not know what the right hand is doing as far as Government's response in these areas, but within the private sector labor will be taking initiatives on a manpower problem with regard to a particular company or a particular industry totally independent of management. Management, in another situation, will be doing it totally independent of labor. And the Government views it as an adversary proceeding and an arm's-length transaction so it will not be cooperating with either one. It is in the public interest to find solutions to achieve a greater degree of cooperation.

Mr. CURTIS. This is very essential. Of course, this is, hopefully, what the U.S. Chamber is all about, among other organizations—to try to help in some way in this kind of an area. It is interesting, now that I am in the private sector and not on the governmental side, to see the many, many inefficiencies that exist there particularly in some of our big corporations.

Mr. CULVER. Well, I want to thank you again, Mr. Curtis, for your cooperation with the committee this morning and again commend you for an excellent presentation. Thank you very much.

Mr. CURTIS. Thank you.

Mr. CULVER. Our next witnesses this morning are Mr. Robert L. McNeill, the executive vice chairman of the Emergency Committee for American Trade, and also Mr. David Steinberg, who is executive director of the Committee for a National Trade Policy.

I wonder if Mr. Steinberg and Mr. McNeill might both come to the witness table at this time. I apologize to you both for the time problems we face, but might suggest, in the interest of time that both of

you gentlemen submit your entire statements for the record, and then, if you would, please summarize the highlights of your testimony informally, so we can devote time for the questions that I know are on the minds of the members here today.

Why don't we start with Mr. McNeill.

STATEMENT OF ROBERT L. McNEILL, EXECUTIVE VICE CHAIRMAN, EMERGENCY COMMITTEE FOR AMERICAN TRADE

Mr. McNeill. Thank you, Mr. Chairman. I will be very brief. I think I could save you and the others a lot of time by simply saying I would concur with the general recommendations that Mr. Curtis just made on behalf of the U.S. Chamber but not necessarily those made in the dialog with the committee members. We in ECAT do believe that we need an adjustment assistance program more effective than the one that we now have.

We would agree with Labor that it, in effect, is a program of "burial insurance" and would like to see a program, as you have just indicated, Mr. Chairman, that has early warning systems built into it through the utilization of customs data that can indicate, in respect of imports, where prospective problems might be.

We would wholeheartedly associate ourselves with Mr. Curtis' comment that the causes of unemployment are many, and we think that regardless of the cause there should be some kind of a program tailored to meet the needs of both workers and adversely impacted firms. We would second Mr. Curtis' proposals that we try to tie import adjustment into manpower training and other, broader programs.

We think we need a program of industrial adaptation which does not look at causes necessarily but looks at problems, unemployment and production losses being two of the important ones.

That, in a nutshell, sir, is the summary of what I had to say, and I thank you.

(The prepared statement of Mr. McNeill follows:)

STATEMENT OF ROBERT L. McNEILL, EXECUTIVE VICE CHAIRMAN, EMERGENCY COMMITTEE FOR AMERICAN TRADE

I am Robert L. McNeill and am here today as Executive Vice Chairman of the Emergency Committee for American Trade. ECAT was formed in the fall of 1967 by a small group of United States business leaders to express their opposition to the several hundred import quota bills then before the Congress. They shared, and continue to share, a concern that a new worldwide trade war would be in the offing should the Congress enact major trade restrictive measures. The members of ECAT are listed in the appendix to this brief statement. Time has not allowed them to review my remarks although I do believe that my comments on adjustment assistance are derived from recommendations made by ECAT members this year and would receive their general approval.

As I am sure is the case with the other witnesses appearing before your committee during its current hearing, I have refreshed and added to my knowledge of the subject by reading the available literature. I was particularly impressed with the following observation from the so-called Williams Commission Report to President Nixon on foreign economic policy:

"Although imports may have significant effects on specific industries, plants, and communities, the aggregate dislocation of U.S. production and employment from import competition is a relatively small increment to the problems of ad-

justment to economic change in the overall American economy. Moreover, beneficial adjustment to any economic change is greatly facilitated when the economy is growing rapidly at high levels of employment."

I am impressed because I think the two sentences add up to a candid appraisal of the import-caused adjustment problem for workers and firms. Let me say, however, that although the numbers tend to be small, those affected find no comfort in those numbers, and appropriately so. For them, the problem of unemployment and/or loss of business is often terrifying and dehumanizing. That this should not be the case is something that all can agree. Private and public policies should seek to avoid such results. But how the problem is avoided or solved creates the recurrent controversy between the advocates of import restrictions and the advocates of export expansion.

Trade adjustment assistance was formulated and legislated in the Trade Expansion Act of 1962 in part to help meet the real economic and social needs of those whose welfare is adversely affected by imports and in part to meet the political imperative of winning the necessary votes to pass President Kennedy's request of the Congress for trade negotiating authority. It was thus intended to meet the concerns of both the trade restrictionists and expansionists. In practice it has not been satisfactory to either. The restrictionist camp, therefore, pleads for higher tariffs and quotas on imports as the preferred solution to the import problem and their opponents—including ECAT—plead that such restrictions not be imposed so as to avoid similar measures abroad against U.S. exports. The result—a five year economic and political stalemate with neither significant progress nor retreat in U.S. foreign trade policy.

Fortunately, indications are that there is to be forward-movement in our trade policy. The President, in understandings arrived at with the European Communities and Japan, has committed the United States to a major multilateral trade negotiation to begin in 1973. This will require implementing legislation and so 1973 may well be a watershed year for our foreign economic policy. Congress will likely have before it then not only the President's trade proposals but also those now before it in the Hartke-Burke bill—a bill that would drastically curtail the American involvement in international business.

Adjustment assistance is central to any trade policy debate. Your committee deserves great credit for examining the problem now. My own feeling is that we really don't know much about the adjustment process. While we have long had experience in assisting the unemployed through such traditional measures as unemployment compensation and retraining allowances, we have had precious little experience in dealing with adjustment problems of firms and industries. Adjusment has usually involved accommodating productive facilities to satisfaction of an ever-increasing demand—a pleasant kind of adjustment for all. But for firms or industries where the demand curve is leveling off either because—as usually is the case—of drops in aggregate demand or because of import competition, the problem of adjustment assistance is a relatively new one for us.

Since its inception, ECAT has strongly supported the concept of assisting industries, individual firms and groups of workers to adjust to foreign competition. In testimony to the House Ways and Means Committee in 1970, we said: "ECAT is unwilling to defer to anyone in its concern for the plight of businessmen and workers in demonstrated need of assistance as the result of the effects of foreign trade. In our opinion, the failure of administrative procedures to provide such assistance promptly and in full measure is a national disgrace. Like justice, 'assistance delayed, is assistance denied'."

Our comment then, as our policy now, reflects disappointment that adjustment assistance has not met the need nor the expectations of 1962. As the Committee well knows, there were no assistance grants between 1962 and 1969, and few since then. This in substantial measure is a reassuring indication of the true magnitude of the import adjustment problem. It also is an indication that the statutory steps to establish eligibility for assistance are too tough and the administrative mechanism too rigid.

Assuming continuation of the import adjustment assistance program, *we would recommend that the eligibility test be changed to remove the presently required demonstration of a causal relationship between tariff concessions and increased imports.* Since there have been tariff concessions on most imports into our country, it seems that one could assume that a relationship does exist between the

concession and any increases in imports. If one cannot assume this, then one would have to assume that tariff levels have no economic consequences.

We would also support an amendment to change the remaining eligibility test that imports "in major part" be the cause of injury to a softer test such as their being a "substantial" cause of injury. We, at the same time, would recommend that a tougher test be retained for escape clause relief through higher tariffs or quotas for whole industries. But even here we feel the "in major part" test is also too difficult. Perhaps domestic industry should be required to show that imports are the "primary" cause of serious economic injury as a condition for establishing eligibility for tariff or quota relief.

While I recognize that adjustment assistance is the primary matter involved in this hearing. I would like to add to my above comments in the scape-clause *a recommendation that the Tariff Commission be required to provide in its serious injury investigations judgments as to the economic effect upon consumers of any recommended import quotas or tariff increases.*

We would also support improvements in the benefits that are provided adversely impacted workers and firms under the adjustment assistance program.

But even with such changes we feel that the program will still fall short of what is needed. Adjustment assistance as presently formulated is basically a program intended to operate on an *ex post facto* basis, that is, it comes into being only after injury has been realized or is imminently threatened. It is easy to understand why labor leaders call the present system of adjustment assistance "burial insurance".

We recommend that the Administration and Congress together develop program modifications that would anticipate economic factors that might result in serious injury to American workers and businessmen so that requisite adjustment assistance could be made available before the fact of prospective economic injury. Existing federal statistical and reporting systems undoubtedly could be used to provide early warning signals of prospective competitive difficulties.

In seeking means to provide assistance in advance of lay-offs and production cutbacks or plant closings, the emphasis should, of course, be in avoiding trade restrictions. Resort to such restrictions could mean the effort had failed. On the other hand, success in helping some firms and workers could lead to strengthening the ability of an entire domestic industry to meet foreign competition.

While the kinds of improvement suggested here are in themselves desirable, it is questionable whether they are enough to win over those opposed to further liberalization of international trade. My own feeling is that more is needed to meet real economic and social needs as well as to assuage the opponents of liberal trade.

The problems associated with import-necessitated adjustment are probably no different than those associated with other causes. I would imagine that if one developed a list of factors leading to a need for adjustment assistance in order of their domestic, economic and social consequences, the import-related factor would be far down on the list. Changes in government procurement, for example, have enormous impacts on sales and employment. Changes in production processes and in domestic demand for products certainly are much more significant in their economic impacts on business than are those of competitive imports.

Because we believe this to be so, *we would like to suggest that the focus of the Congress and the Administration be on the overall problems of change in our economy and the needs for adjustment assistance that follow in its wake. This certainly should include import adjustment assistance but as a part of an overall and comprehensive program that we would describe as one of "industrial adaptation".*

Our economy faces many problems, particularly the current continuing high rate of unemployment together with persistent inflation. Hopefully, we will find the right mix of fiscal, monetary and other measures to restore non-inflationary growth and a declining rate of unemployment. But a problem that will most likely be with us for a much longer time is that of adapting to the ever-increasing pace of industrial change.

Donald Kendall who is Chairman and Chief Executive Officer of PepsiCo., Inc., the Chairman of ECAT recently stated:

"It takes no great imagination to realize that international competition causes hardships for some workers in some industries in the United States. The real problem, however, is much greater. In our changing economy, a young person can

spend years learning a skill only to find out ten years later that there is no need for it. Because the economy has passed his or her skill by is no reason for the person to be passed by. We must look forward to a time when retraining and relocation are a way of life, a way to a better life, to an upgrading of a person's competence and satisfaction in his or her career. It is inexcusable that instead of a national program of industrial adaptation that would allow the worker to retain pension and other rights, our economy offers only inadequate retraining or the dole".

Mr. Kendall recommended that as a first step toward a program of industrial adaptation, the government initiate a study of all existing programs. "I think we will find," he said, "that the United States is already far along the road to such a program, but we are moving by means of overlapping, lopsided, and even conflicting programs spread casually among dozens of federal, state, and industry actions."

Pending the achievement of a national program of industrial adaptation, ECAT strongly supports reforms in trade adjustment assistance, as suggested earlier in this statement. The present hearing of your Committee should help measurably to bring public attention to this critical problem.

Thank you, Mr. Chairman.

Mr. CULVER. Thank you very much, Mr. McNeill.

Mr. Steinberg.

STATEMENT OF DAVID STEINBERG, EXECUTIVE DIRECTOR, COMMITTEE FOR A NATIONAL TRADE POLICY

Mr. STEINBERG. Mr. Chairman, gentlemen, our committee, whose support comes from businesses large and small, from some trade associations, and also from individuals as citizens and consumers, has from the very beginning of our committee in 1953 supported the concept of adjustment assistance.

There were many frustrations in the 1950's right up to the Trade Expansion Act of 1962 in getting this concept accepted by the executive branch of government and also by the Congress.

We still favor, and very strongly, an adequate adjustment assistance program, not only to hold the ground against rising pressures of protectionism but also to backstop a new trade initiative, which, I believe, has to be a definitive, dependable, free trade initiative whose time has come. The adjustment assistance criteria in the Trade Act of 1962 have got to be reformed. The injury test should be eased, the level of benefits to firms, and particularly to workers, should be substantially increased.

But our concern with adjustment goes far beyond the adjustment assistance provisions of the trade legislation. I endorse, as Mr. McNeill has, the views of former Congressman Curtis in this area. In fact, Mr. Chairman, the title I gave to the statement which, I trust, will be made part of the record, is "America needs an adjustment-conversion-development strategy" that encompasses the problems of the country in the area of trade adjustment, and adjustment to the outflow of capital. There have been some problems here even though, on balance, the multinational corporations generate many more jobs than may be lost from this process. Needed is a strategy that also deals with the problems of conversion from military to civilian production, the closing down of a Navy yard here and there, the cancellation of a Government contract here and there.

Within the perimeters of international trade and investment, one of the things that is lacking is coherent Government attention to the adjustment problems of industries for whose benefit trade has been restricted and for whose benefit there are strong and increasing pressures for additional trade restrictions.

To this very day, the United States does not have what I would call a coherent, constructive policy of assistance to an industry that has been the beneficiary of import restrictions or that now seeks additional trade restrictions.

Let me give you some concrete examples. We restrict imports of textiles; we have for many years. The additional restrictions on textile imports that were recently negotiated under very strong U.S. pressures against various Asian countries dealt, I think, a real blow to American trade policy, a liberal trade policy, and dealt a real blow to the prestige of this country.

But all of this was done without a coherent textile policy. The Nation does not have, to this very moment, a coherent textile policy that addresses itself to the real problems and the real adjustment needs of the textile industry.

Now, I noticed, the other day, the President issued an Executive Order 11651, dated March 3, which establishes a special working group in the Council on International Economic Policy to deal with textile trade policy. It does not deal with the problems of the textile industry; it deals only with how the United States can best administer the trade controls that have been established.

So we have a textile trade policy, but we lack a textile policy. We control imports of steel; we lack a steel policy. We control imports of oil for security reasons, and yet we do not have a balanced, coherent petroleum policy within a balanced, coherent energy policy, and so on down the line.

Therefore, what we need is constructive attention, not just to critical problems of American industry but to the evolving adjustment problems of American industry. The executive branch of Government is not adequately organized, it seems to me, for this purpose. My statement will deal in some way with that problem.

Nor do I think that the Congress is giving adequate attention to this question.

There are two other points that I would like to make. One of them is: For what kind of trade policy is your committee and the Congress considering the adequacy of the Nation's adjustment policy? I assume, from what I know of the chairman's activities in this area, and Congressman Fraser and Congressman Whalen, and other members of the committee, that the assumption is the need for a liberal trade policy in the total national interest.

In my view, " a liberal trade policy" is too fuzzy a term; it does not tell me very much. "Freer trade" also has that deficiency. Another rhetorical term we use these days, or the administration is using these days, is "an open world economy." I don't know what this means.

In my view, adequate planning in the area of adjustment and conversion and development calls for the cranking into this process of a definitive free trade premise. This is the kind of policy that we believe is urgently needed to cope with the crisis situation that America

faces today in its foreign economic policy. It is this kind of premise that will generate optimum performance in the attention the country should be giving to productivity, to science and technology, to manpower retraining, to adequate transportation development, to rural development, and all the other policy areas that deserve priority attention in these very critical times.

The final point I would like to make, if I may, is a procedural point. I have urged, this, Mr. Chairman, before other committees of the Congress, and I am really surprised that the Congress has really never done anything in this area. The time has come for the Congress to require from the President an annual report on the international economic position of the United States, including, among many other things, the international competitive position of the United States and this country's success in adjusting to progressively freer trade with the rest of the world.

Hearings might be held on the report. The international economic chapter of the Annual Report of the Council of Economic Advisers does not meet this purpose. I think that if you had this kind of report and the kind of Executive accountability to the Congress that this would represent, you would get, I think, a much more meaningful, constructive dialog between the two ends of Pennsylvania Avenue and much greater confidence of the one branch of the Government in the involvement in these issues by the other branch of the Government.

So, in a nutshell, this is a very brief summary of my views which are, in more detail, spelled out in my statement. I thank you.

(The prepared statement of Mr. Steinberg follows:)

STATEMENT OF DAVID J. STEINBERG, EXECUTIVE DIRECTOR, COMMITTEE FOR A NATIONAL TRADE POLICY

AMERICA NEEDS AN ADJUSTMENT/CONVERSION/DEVELOPMENT STRATEGY

America needs a coherent, well-coordinated adjustment/conversion/development strategy in domestic policy to backstop progress toward the freest exchange of goods, services and capital with the rest of the world. We have never had such a strategy.

Lack of it retards urgently needed progress toward developing a freer world economy, and is primarily responsible for today's escalating pressures threatening to turn back the clock to the discredited trade policies of another time. Without such a strategy for such a purpose, the nation lacks the impetus and the means to thoroughly probe its strengths and weaknesses in a drastically changed and rapidly changing world economy and devise constructive answers adequately responsive to its adjustment needs. Without a free-trade commitment and an effective adjustment program to backstop it, there will continue to be strong, politically attractive temptations to follow the path of least resistance in reacting to the import problems of complaining industries. This is the path of import restrictions (or pressures on supplying countries to restrict exports), treating the symptoms of weakness but not the weakness itself.

AMERICA NEEDS AN ADJUSTMENT/CONVERSION DEVELOPMENT STRATEGY

Trade restriction for some tends to set an unfortunate example for others, at home and abroad. At home it is contagious. The reaction abroad takes the form of retaliation against competing U.S. exports and of resistance to U.S. pressures for the removal of barriers against American goods and capital. Failure to bite the bullet of adjustment not only neglects the basic needs of the supposed beneficiaries of import restriction. It also shunts to others in our own economy and in other countries the adjustments that must be made somewhere. The latter adjustments are costly to workers in other U.S. industries, to consumers of the

affected products, and to the nation's stake in a freer, healthier and more cohesive world economy.

When additional trade restrictions are imposed, no steps are taken to get them removed with deliberate speed. With rare exceptions, they continue indefinitely. It is a policy of penalizing the success of foreign producers who have capitalized on U.S. trade concessions that were expected to foster trade expansion in those very products. As Professor Haberler of Harvard University once put it (though with some exaggeration), "this is a case where nothing fails like success and only a failure to utilize a concession can keep it alive." Penalizing foreign producers successful in promoting exports to the United States sometimes amounts to U.S. Government action against foreign investment in this country (in this instance, investment in trade promotion). In view of our own protestations against the treatment accorded American investment by various foreign governments, finding ourselves on the receiving end of criticism for penalizing successful foreign investment in our own country smacks of being hoist with one's own petard.

Import restrictions give special assistance to producers who don't need it, strengthening the strong against the weak. The weak need much more for survival. They need special attention to their special needs. They may need to be shifted into other types of production. Restriction of foreign competition is of necessity nondiscriminating protection for all members of an industry regardless of need. This is neither political equity nor good economics.

Those who need help are usually in trouble within their own industry. If they are in a growing local economy, they have to buck the more attractive job opportunities of more modern enterprises. If the local economy is not dynamic, they probably suffer from many of the afflictions which have brought the area to its present condition. Where an entire industry suffers serious dislocation from import competition, it has already been dislodged from its once secure place in the nation's internal economy by technological change, mobility of labor and capital, and the rising productivity and rising labor standards inherent in a growing national economy.

The gears of U.S. foreign trade policy have never been properly meshed with these complex gears of the nation's economic machine, notwithstanding the emphasis on adjustment in the Trade Expansion Act of 1962. Lack of a comprehensive program of orderly adjustment has handicapped our bargaining position in international trade negotiations, particularly those that probe the hard core of world trade barriers after most of the water has been squeezed out. It impedes our readiness to carry out fully the trade concessions we make in these agreements, and this in turn weakens our leverage in future trade negotiations and at other international conference tables.

FREE-TRADE OBJECTIVE

Today's realities at home and abroad call for a dramatic, far-reaching initiative to correct these deficiencies in domestic economic policy—not only to protect past progress toward freer world trade, but to backstop new, even more dramatic efforts to build a freer world economy. A definitive free-and-fair-trade initiative is the indispensable next step in trade policy. Too few Americans—too few "free traders"—have yet awakened to this necessity. Vital foreign-policy and domestic-policy objectives are at stake.

Without a dramatic, far-reaching initiative to remove the trade distortions of the economically advanced countries, there will be no impetus for moving as quickly and as far as we must to: stop the creeping return to economic nationalism (the national or multinational varieties), weld an economic community of free nations able to cope effectively with the ambitions of aggressive, totalitarian powers, open the world's best markets to the full range of exports from the Third World (which happens to be two thirds of the world's population), ensure that a greatly needed full-employment policy can be achieved and sustained without inflation (such a policy is essential to an effective adjustment program), up-date the code of fair international competition, up-grade labor standards around the world trading system, and achieve the freest practical movement of exchange rates as one element of greatly needed international monetary reform.

Nor, without a free-trade initiative in foreign economic policy (involving a timetable that may extend to the year 2000 for industries with the most difficult adjustment problems), will there be the impetus for comprehensive atten-

tion to the restructuring of the U.S. economy, and those of other industrialized countries, required to backstop unwavering implementation of even existing commitments to freer trade. Conversely, without this adjustment/conversion effort there will be no free-trade commitment, only slow progress at best toward freer trade, and most likely a deepening of the trend toward new trade restrictions somewhat more sophisticated than the old-style tariffs and quotas. Without a free-trade commitment, American business will be denied the definitive, dependable, trade-policy premise it needs to generate the most productive decisions in plant investment, product design, product pricing and sales promotion affecting both domestic and international operations. No other policy is capable of removing the uncertainty that surrounds the prospects for import access to the U.S. market and U.S. access to foreign markets.

This uncertainty is a drag on the innovativeness of American management. Correcting it deserves priority attention in a national policy calculated to *stimulate* as well as *facilitate* adjustment to changing market forces.

A definitive, dependable free-trade premise should also be cranked into government programs fostering optimum performance in productivity, science and technology, labor retraining, transportation development, rural development, urban overhaul, conversion from military to civilian production, and other policy areas that demand the nation's closest attention and best efforts. Such a premise, expressing a stimulating and realistic view of the kind of world economy required for a healthy and secure American economy, would generate our best efforts in all these policy areas. "Freer trade", "fair trade" and "open world economy", well-worn slogans in today's dialogue on these issues, are not adequate standards for this purpose. They are too fuzzy, serving as convenient rhetoric for leisurely approaches that fit the dictates of short-run political expediency, not the imperatives of the national interest in both the short and long run.

Nor will merely liberalizing the criteria and levels of government aid under the adjustment assistance provisions of the trade legislation either salve the fears and anxieties of industrial and labor opponents of freer trade or solve the adjustment problems of our weaker industries before these problems escalate into crises definable as "serious injury". A viable adjustment assistance program is needed as emergency aid to firms or workers whose adjustment problems warrant such assistance. Similarly, a viable "escape clause" is needed as emergency aid to industries that can substantiate the need for extraordinary import restrictions. But a more basic need is a policy of orderly government attention and appropriate assistance to industries with serious problems of adjustment to the freest international movement of goods and capital. Government should not keep alive production that is unlikely eventually to go it alone without government help—except in the case of industries considered essential to national security. Both in national security cases and others where import controls of some kind are found necessary, such controls should be only temporary, marginal measures of last resort, part of a balanced policy of constructive assistance to an ailing industry. These restrictions should be phased out as rapidly as possible. A coherent industry-assistance policy would provide the framework for doing so.

No such industry adjustment policy exists today. Textile imports are stricted without a textiles policy. There are steel controls without a steel policy, oil controls without a coherent, balanced energy policy, and so on down the list of trade restrictions. Nor, with the rarest exceptions, do the industries, workers and communities alleging loss of jobs to foreign competition advocate such comprehensive, constructive attention to their problems.

Similar attention is needed to adjustment problems unrelated to international trade. For example, the closing down of military installations, and the phasing-out of military, aerospace or other government contracts. These and the nation's other adjustment/conversion/development needs should be the subject of an overall national policy sparked and spearheaded by the Federal government, but with the close cooperation of regional development commissions and state and local governments.

POLICY ADMINISTRATION

In view of the need for coordinated attention to these issues by many government agencies, basic responsibility for such a national policy should be assigned to a permanent Cabinet-level council—a National Council of Economic Development—chaired by the President, or by the Vice President in his absence. Its

membership should include the Secretaries of Commerce, Labor, Agriculture, Interior, Treasury, Transportation, and Housing and Urban Development, as well as representatives of other government agencies with responsibilities in this policy area. If another Reconstruction Finance Corporation is created as a major financial arm of such a program, its president should also be a member of the Council. There should be an advisory committee from business, labor, agriculture and the general public.

The Council would be the focal point for coherent, continuing national attention to major problems of economic weakness, both in geographic regions and in specific types of production. Its responsibilities in the field of adjustment/conversion/development would parallel the interagency, Cabinet-level responsibility of the National Security Council in national security matters and the National Advisory Council in international financial and monetary affairs. The existing Domestc Council is not adequate for this purpose. Its purpose is too diffuse.

The states have a key role to play in this strategy, either individually or in regional groups. Their area of responsibility would have to be articulated by the President in a communication to each of the 50 Governors. A national conference of Governors should be called to discuss these issues.

State and local governments should be urged to apply the free-trade standard to their economic development programs, and to discontinue procurement laws that discriminate against imports. Lack of a definitive Presidential message along these lines, and of a national adjustment/conversion strategy, today accounts substantially for the plethora of Buy American laws at state and local levels and the danger of more, and more restrictive, laws of this nature. There is no overall, vigorously nurtured sense of national purpose and commitment in this key area of national policy.

Each state might be asked to establish an economic development council (a counterpart of the proposed national council). The state council would include senior representatives of the state and local governments, with an advisory committee from business, labor and the academic community. Its job would be to point the way to new frontiers of economic development, designating Federal, state and local government policies that need correction (and those that need to be adopted) to facilitate the development effort and the state's adjustment to free trade with the rest of the world. The National Development Council would serve as the channel through which state proposals regarding national policy are fed into policy planning at the Federal level.

Regional development programs embracing groups of states also have an important role. These are already under way. A free-trade premise needs to be cranked into them.

Although the basic stimulus to the fullest participation of state governments in this strategy will come from the Federal government and the states' own sense of responsibility, a major contribution to the success of this policy can be made by the various organizations now engaged in fostering cooperation among state governments and between the states and the Federal government. These include the Governor's Conference, the Southern Governor's Conference, the Council of State Governments, and the Advisory Commission on Intergovernmental Relations (established by Act of Congress and consisting of Federal, State and local government representation). At present, these organizations either do not include foreign-trade issues on their agenda or are in opposition to sustained freer trade, advocating import restriction as a response to increasing foreign competition.

In 1958 a report by the Committee for Economic Development noted that "the field of economic policy on the State and local level is a morass of confusion and neglect." There is evidence of growing attention by state and local governments to their development needs, and greater preparedness for more confident participation in an increasingly competitive world. But these governments and the U.S. economy in general are still a long way from appreciating the domestic policy imperatives of a consistent, sustained commitment to freer world trade and its importance to national strength and security. They are even further away from comprehending the challenge and the rewards of the free-trade strategy for which we should be preparing.

ADJUSTMENT ASSISTANCE

Trade adjustment assistance to firms and workers should be coordinated with state and local government development programs, many of which may themselves be receiving Federal aid.

U.S. trade policy—whether the free-trade commitment for which we should be preparing or the freer trade policy to which we are now avowedly committed—should require individual enterprises to show that they have diligently availed themselves of the adjustment assistance facilities already at their disposal, before requests for extraordinary assistance are "adjudicated" under the adjustment assistance provisions of the foreign-trade legislation. These facilities, available to any producers seeking adjustment help, whatever the origin of their problem, include the market information and other services of the Department of Commerce, the technical and financial resources of the Small Business Administration and of state and local governments, and private instrumentalities such as the banking system.

The same principle should be applied to labor dislocation. The adequacy of all adjustment programs (Federal, state and local) should be reassessed to make sure they meet current needs.

The level of extraordinary, import-adjustment assistance to firms, but particularly to workers, should be substantially higher than that provided under the Trade Expansion Act of 1962, and the handling of such requests should be speed-up. Worker assistance should provide 100 percent insurance of total annual earnings prior to the adjudged dislocation, pending retraining, relocation, and reemployment, or until government responsibility in the particular case has otherwise been fairly and equitably terminated. The pension rights of these and all workers should be fully protected.

The adjustment assistance criteria need reform.

It should not be necessary to establish a link between import expansion and a prior trade-agreement concession. This should be replaced by a policy declaration in the statute along the following lines: "In view of the fact that the United States for many years, in its foreign aid and foreign trade policies, has helped improve the export capacity of most countries of the Free World and their access to the U.S. market, the government of the United States should provide special assistance to qualifying firms and workers who can prove they have been seriously injured by imports." Imports should no longer have to be shown to be the "major" cause of injury, but rather the "primary" factor.

"Adjudication" of eligibility for special Federal aid to facilitate adjustment to import competition should be the responsibility of the Tariff Commission. The Commission would be acting as a kind of economic "court of appeals" to determine whether special forms of adjustment assistance are justifiable for the applicant firms or workers on grounds of (a) injury primarily attribtuable to import expansion, and (b) the inadequacy of regular instrumentalities of adjustment assistance.[2]

Petitions from firms would carry the entire case history of the applicant's adjustment effort, indicating the kind of help still needed and how it would be used, as well as proof that (a) import competition was primarily responsible for the firm's difficulties, and (b) regular government assistance was not adequate. Evidence of unreasonable delay and inexcusably poor judgment in seeking constructive answers to import competition and in attempting to meet the criteria of the regular government programs (Federal, state or local) should seriously prejudice a petition, unless some form of illegal or unfair treatment of the applicant can be documented. Administration of the Government's assistance to a petitioner declared eligible for special help would be the responsibility of the executive agency primarily concerned with the activities of that industry.

Extraordinary adjustment assistance under the trade policy legislation should be coordinated with such overall adjustment policy as may apply to the industry as a whole. Assistance to a large percentage of firms of an industry, assuming these petitioning companies remain in that industry, should itself trigger a comprehensive adjustment policy for the entire industry, even though only the firms involved in adjustment assistance adjudication receive particularized government aid under the adjustment assistance programs as now conceived.

The criteria should be strictly interpreted. If they were loosely defined, some firms, falling behind in their own industry and unable to meet the criteria of gen-

[2] Since adjustment assistance is also justifiable in connection with the possibly injurious consequences of other Federal policies (e.g., those of affecting defense production) for certain producers and workers, such a "court of appeals" might also be established to judge whether extraordinary government aid is warranted in those cases. An "adjustment appeals board" might be created to handle all petitions for extraordinary assistance. Some forms of assistance might be industry-wide in scope, hence part of an overall policy for that industry and requiring the special attention of the National Economic Development Council.

erally available adjustment assistance, might try to cash in on a special aid program dealing with import competition—one whose effectiveness is of prime political concern to members of Congress, both those who advocate and those who oppose freer trade. Such applicants and their political supporters could follow the following line of reasoning: If the applicant could get a Tariff Commission judgment of serious injury based on loosely interpreted criteria (some would like to see just the proof of import expansion serve as the basis of adjustment help), then the administrators of adjustment assistance in the Executive agencies would feel obliged, perhaps even sacrificing regular standards, to give them something with a view to saving their own political hides in future encounters with Congress on appropriations or trade policy. On the other hand, if the petitioners went initially to these Executive agencies even for regular adjustment assistance, the burden of proof and persuasion would be much greater.

If the Commission's criteria were loosely interpreted, the end result could be strong criticism against the whole program as a poorly conceived use of public funds in a free enterprise economy. As Lynn Edminster, formerly executive assistant to Cordell Hull and retired Vice Chairman of the Tariff Commission, once noted on the desirability of easing the Commission's criteria: "If we pursue this route to its ultimate lair, why should not the Tariff Commission subsequently entertain favorably petitions for adjustment assistance from firms allegedly injured through loss of business to the firm that initially received assistance? And so on, ad infinitum." It might be added that where automation (with or without government help) is the answer to growing import competition, workers might be displaced, and why then could they not seek special import-impact adjustment assistance more liberal than that accorded other victims of automation? The need for tight import-impact criteria seems clear. But equally clear is the need for early, anticipatory attention to labor dislocation caused by import expansion, the transfer of production lines to U.S. plants abroad, or any other change in market forces.

The need for such programs is compounded by the fact that workers have a particularly difficult burden of proof in adjustment assistance cases before the Tariff Commission. If the employer's major problem is shown to have been failure to automate and take other steps he should be expected to have taken to adjust to import competition, the labor dislocation may not be significantly due to imports but to incompetence. If, on the other hand, the employer automates, the labor dislocation may again not be due primarily to import competition.

Adjudication of adjustment assistance eligibility even under the present program should remain the Tariff Commission's responsibility. To shift this role to the Executive Branch would tend to expose the program unduly to temptations of political abuse. It also downgrades the Commission, affecting its stature in the proceedings that remain its responsibility. If the Commission is not adequately equipped to judge adjustment-assistance petitions on their merits, its qualifications for judging escape-clause petitions might also be questioned. The similarity of analysis in both types of proceedings, and the value of the analysis and findings in one type to those in the other where the same industry is involved, also tend to support retention of both responsibilities in the Commission. This would also tend to expedite the handling of adjustment-assistance cases.

THE ESCAPE CLAUSE

The "escape clause" has been the officially designated route for escape from trade agreement concessions where industry-wide disruption can be documented. Although in more recent times it has been referred to officially as "tariff adjustment," the available import-control remedies are more extensive. Moreover, "adjustment assistance" in the accepted sense may be given to individual firms in an industry seeking escape-clause relief, whether or not the industry's petition is successful. But an escape-clause proceeding has never been correlated with comprehensive government attention to the adjustment problems of the affected industry. It should be.

The escape clause should be an appeals procedure through which an industry may seek extraordinary assistance—import restrictions—it considers essential to the success of an industry-wide adjustment program. The rationale of the

escape clause should be oriented to an adjustment strategy for that industry. It should have no other raison d'être.

The Tariff Commission should approve an industry's request for import restrictions via the "escape clause" only if the industry as a whole (meaning those firms accounting for most of its output) can show (1) that it has been making a diligent effort to adjust to new competitive forces at home and abroad, (2) that the adjustment effort is a well-calculated program consonant with the changing dynamics of U.S. economic life and approved by the proposed National Development Council, and (3) that rapidly rising imports have caused serious injury and seriously impair effective execution of this industry-assistance policy. The escape-clause proceeding should encompass a review of the effectiveness of the particular industry-assistance policy and include attention to the possibility that government policies (Federal, state or local) might be placing unreasonable burdens on the industry. Such a review would provide an essential frame of reference for judging the need for import restrictions and the kind that would be most suitable.

If the Commission decides in favor of the petition, its recommendation of import restrictions should also set forth the areas of government policy in which additional measures are necessary if the import restrictions are to be withdrawn within a reasonable period of time. The Commission should be empowered to propose alternative sets of restrictions to fit alternative patterns of adjustment measures. Its recommendations should take account of the additional steps it believes the affected industry should take in a continuing effort to solve the problem.

Such standards should be written into those provisions of the General Agreement on Tariffs and Trade that permit the withdrawal of trade concessions. Accountability to GATT in this respect should be required of all governments invoking an escape clause. They should be asked to report on the progress of adjustment, and how much longer the escape-clause restrictions of imports might be needed. Such reports could become the object of confrontation.

Import restrictions found to be urgently necessary to cope with a proved situation of serious injury from imports—with an effective adjustment-assistance program, such cases would soon be a rarity—should be automatically phased out within a period of, say, two years in accordance with a schedule which the Tariff Commission should suggest. Before reducing the special relief to the next scheduled level, the President should ask the Tariff Commission for advice on the effect it would be likely to have on the industry. He would make his decision after consulting the National Development Council, which would oversee the adjustment progress of industries accorded such protection, though the day-to-day responsibility would rest with a particular government agency.

Severing the link to a trade agreement concession—sound in the case of adjustment assistance—is not sound for the escape clause. GATT rules, and the logic of the escape clause, appear to suggest the need to prove some relation between import expansion and a trade-agreement concession. If only for formality purposes, "in whole or in part" might be used, posing no difficulties of proof. However, a more substantial standard would be preferable, perhaps "substantial" itself.

Escape-clause relief should not be easily invoked. The escape clause should be only one facet—the basis of extraordinary relief—of a constructive, soundly based policy of government attention to industry requests for government help. Government policy should not invite recourse to the escape clause as *the* vehicle of government attention to industry-wide import-impact problems. An escape-clause proceeding is not the only vehicle for government attention to such problems, and is in fact the least desirable. Escape-clause import restrictions as conceived to date are conducive neither to sustained, consistent progress toward genuinely freer trade nor to the search for constructive answers to growing problems of international competition. Nor is loosening the escape-clause criteria likely to deflate and defuse protectionist pressures for legislated import controls, for negotiated trade-control arrangements with supplying countries, or for Presidential import controls via the retaliatory measures in existing law. Even the weak escape clause of the 1950's, which got more protectionist over that span of years, could not significantly defuse import-control pressures in Congress.

Easier escape-clause criteria would mean more such pressures for import control—more emphasis on this channel of government help than on adjustment measures via domestic economic policy.

ACCOUNTABILITY TO CONGRESS

Provision should be made for meaningful, continuing accountability to Congress by the President on the international economic position of the United States, including the nation's performance in adjusting to international competition. The channel should be an annual report to Congress on this subject, and hearings on this report by appropriate committees of Congress. The clear, unmistakable purpose of the hearings should be ways and means of ensuring maximum success for a policy aimed at achieving a progressively freer world economy.

These procedures would help meet the need to develop a relationship of sustained, active cooperation between the President and Congress in this field. Congressional concern with the extent to which the sense of Congress and the objectives of the policy are being fulfilled would spark Administration responsiveness to Congressional intent and Congressional interest in this policy area. Hopefully, the present chasm would be bridged, and resolute progress toward freer trade ensured.

DATA NEEDS

Mr. CULVER. Thank you very much.

Mr. McNeill, you suggest in your statement that it is the responsibility of the Government to provide the data and the analysis necessary to provide early warning of job dislocation. Yet, we received testimony yesterday, and we heard more testimony this morning on the problem of obtaining the necessary information from Government sources.

Yesterday, one of our witnesses testified that the most current data the Department of Commerce is using is only from 1966 and this is not a problem that is characteristic of this administration as distinguished from any previous administrations: it has been a general problem within the country and within our governmental system.

Since you served in the Commerce Department, could you discuss some of the practical problems associated with this problem, particularly the timely and accurate collection of objective data and its proper interpretation and dissemination?

Mr. MCNEILL. I can't answer that. I can only comment that, in respect of trade statistics, I think they are very current; they are month to month so that you don't have that gap that Mr. Biemiller referred to. Incidentally, I referred to a census of investments abroad, and 1966 was the last full year for which those figures were available.

I would like to add, however, for your information, that probably by the end of May or June the Commerce Department will report a census based on 1970 statistics, so that I think that problem will be met.

What I had in mind was simply requiring the Customs people, together with the people in the Census Bureau, to keep abreast of, say, rapid increases in imports of any particular product or product line and relate those statistics to other general statistics that are available. In this manner I think that they can be used for the early warning purpose.

COOPERATION BETWEEN LABOR, BUSINESS, AND GOVERNMENT

Mr. CULVER. Well, in that connection, I would like to address my last question to both of you. Even if the statistical information is available, either from trade associations or from the Government or from any area in the private sector, and we have the ability to perceive and

project market opportunities and changes in basic trends, we are, nevertheless, even in possession of this information, confronted with the next problem, and that is the hard fact that in this country we are generally committed to open and adversary processes. If we want to promote early warnings of potential job layoffs or management decisionmaking so that planning can go forward without unduly alarming the community or the work force or giving unfair competitive advantage to competitors in a particular market area, we are confronted by problems of confidential data. Therefore we should be thinking of a consultative process among labor and industry and Government, and less of this classic adversary relationship and process.

Given the present structure and attitude of U.S. business, do you think the timely and accurate collection of the proper data and information could be obtained voluntarily as in Sweden or would it have to be enforced by law as it is in Canada and Norway, for example?

Mr. STEINBERG. I think you have to start with the Federal Government—by that, I mean the President of the United States—making known to the Nation what the Nation's purpose and commitment is in this whole area of foreign economic policy and of the need to provide meaningful employment to every citizen who seeks employment. If we have the kind of adjustment programs that I believe are urgently necessary, and if the message to the country made known the existence of such programs and the need to deal in an orderly way with the adjustment problems that may result from a whole variety of causes, then, I think, you would get—in fact, Government should call upon business to submit to Government—data and predictions of problems that are coming up and that require the attention of the adjustment assistance mechanisms broadly defined.

Let me give you one example, because I dealt with this not too long ago in testimony before the Tariff Commission regarding section 807 of the U.S. Tariff Schedules. I used that as an opportunity to deal with the overall question of labor dislocation that may result from the shifting of a production process in the United States from a U.S. plant to a foreign plant. What about the workers? I suggested that U.S. law require any American company that decides to shift a production process from a U.S. facility to a foreign facility, and is unable to absorb all of the affected workers in jobs at least the equal of the jobs they had, to report to the appropriate Government agencies the company's inability to absorb all these workers so that the adjustment process—which does not exist but which should be established—may, in an orderly way, deal with the problem of labor retraining and so forth.

Now, this does not mean that the company should change its decision; this does not mean that the company should submit its decision for Government scrutiny; this means only that American business should be required by Government to look ahead and anticipate problems of labor dislocation and make known to Government, where the facts happen to fit, the particular company's inability to absorb in other employment those workers who may lose their jobs as a result of the change that is taking place.

So I really don't know how to answer this question of how Government agencies can predict dislocation. I do think that Government

agencies will depend upon the feedback that they get from the private enterprise system itself regarding the ability of the private enterprise system to make a successful adjustment to the changes that are taking place. And then, when the Government knows about problems that are coming up, the adjustment machinery can go to work and try to deal with those problems.

Mr. McNeill. Mr. Chairman, if I might comment on that also, there is very little that business does or that anybody does in the producing sector for which statistics do not exist and that are not available to the Government. American corporations report just about everything they do to one or another regulatory or other type of agency. So the facts are available to Government. They are given to government, however, on the basis of confidentiality. Business firms justifiably don't want to give to their competition the statistics that would be useful to them.

It is interesting to observe that, in respect of the Hartke-Burke bill, business is willing to make public corporate data that have not in the past been made public.

I was in New York yesterday, visiting with the labor leadership of the metropolitan New York area to talk about the Hartke-Burke bill, which I recognize is not the subject of your discussion here. It was very interesting, however, to note that my observations just went right past them and theirs past me. They were using statistics developed by people in the AFL–CIO headquarters here; they don't bother to get their own. We have statistics here, Mr. Whalen, that you might want to use that are based on a survey of 74 major companies and their overseas investments and the impact that these have on domestic employment.

I know that business would welcome some kind of a dialog. The question is: How do you create that dialog among business, labor, and the Government for the kinds of purposes that your question contemplates? I don't know how you get around it.

Mr. Culver. Mr. Fraser.

MULTINATIONAL CORPORATIONS AND JOBS

Mr. Fraser. Thank you, Mr. Chairman. I want to ask about conclusions that the multinational corporations have generated both more employment and a favorable trade balance in their activities.

On the question of employment, have the studies that have been made established a casual relationship between the external investment—that is, the investment abroad—and job generation? Or do these simply occur—that is, there is an increase in domestic employment among the multinational corporations but without our being able to establish any kind of a casual relationship?

Mr. McNeill. I will try part of that, Mr. Fraser. The answer is, I think, that the studies that have been made, including ours and those of the Department of Commerce, which have not yet been completely published, show a very direct correlation between investment abroad and domestic employment, and you can quantify by company what that relationship is.

Mr. Fraser. Let me say that correlations alone are not necessarily persuasive. For example, so you will understand why I am asking the

question, I would suppose that most corporations are going to invest overseas only if things are going reasonably well at home. They have money to invest abroad. In other words, an industry that is in a declining position is not likely to engage in international investment activities, generating capital for investment overseas and establishing production facilities overseas.

The point I am trying to make is that there may be a kind of a self-selection here, that it is those corporations that are doing well in the American domestic economy that can afford to go overseas; and, therefore, when you study the correlation question, you find that these multinational corporations are generating more domestic employment but not necessarily because they invested overseas. The casual relation may be exactly the opposite—that it has been the success of their domestic endeavors that has enabled them to be in a position to expand overseas. That is the point I am trying to make. Can you speak to that point?

Mr. McNeill. Yes, I can, and let me approach the answer negatively. What the companies can demonstrate is, that in the absence of the foreign investment, what the job consequence would be for their factories and establishments in the United States. They very clearly can demonstrate that. I would be happy to give you some of those.

Mr. Fraser. Suppose they had invested the same amount of money in the United States.

Mr. McNeill. I think the question assumes that the overseas investment was at the expense of a domestic investment and that, therefore, a foreign job rather than a domestic job was created. I don't think it works that way.

Mr. Fraser. Not necessarily at the expense of, but let us suppose a company is in a relatively strong financial position. It has access to enough capital through equity or loans or profits so that it can look at expending production, perhaps diversifying product lines, or just enlarging product capability in the lines that they are already in. They also have a choice of doing that in the United States or going outside the United States to a lower cost labor market.

Can it be demonstrated that the choice they make to invest overseas contributes more domestic employment than if they had invested a similiar amount within the United States?

Mr. McNeill. Yes; I think I can give you instances of that.

Mr. Fraser. Instances are not enough. I am trying to get at the overall impact.

Mr. McNeill. All right. Then you go from the particular to the general, and I think that generally you will find that the companies that do invest abroad tend to be among the more successful enterprises in this economy. They tend to be companies whose primary market is the U.S. market. The domestic market in nearly every instance is the dominant market for the multinational corporation. It is the domestic market that they are primarily serving and they don't make foreign investment at the expense of investments in the United States, which is the major locus of sale.

Mr. Fraser. Why not if they are going to get a higher rate of return on their overseas investment?

Mr. McNeill. It does not necessarily follow they are going to get a higher rate of return on their overseas investment.

Mr. Fraser. It may not, but one reason for going overseas is to get into lower cost labor markets.

Mr. McNeill. I think that our survey would severely dispute that. We asked a series of qualitative questions as to reasons for investment abroad. The determinant reason for foreign investment is the market demand abroad. People don't go abroad for reasons of tax rates or, in most cases, for labor rates. There are exceptions, however, to that, such as where you have circuit boards, say, assembled by lower cost labor abroad, but the wage rates abroad in Europe and elsewhere are not all that different from ours.

Mr. Fraser. They may not be in Europe, but outside of Europe they tend to be.

Mr. McNeill. If you look at investments outside of Europe, you will find it is in the other industrial countries where the major investments are. Investments in the lesser developed countries tend to be in the extractive-type industries and only in a small degree in manufacturing industries.

In Asia and elsewhere, you will find that the investment picture is usually one involving very low levels of technology and assembly, and therefore very little U.S. direct investment.

The multinational companies are in other industrial countries for purposes of participating in the satisfaction of foreign demand. That is the reason they go abroad. I doubt that you would find that a German or French or British wage rate would be an inducement for the foreign investment.

Mr. Fraser. Would you comment?

Mr. Steinberg. There are many reasons for a company's investing abroad. Tax factors and, in some cases, labor factors are among those reasons, but I don't think there are many instances in which the labor factor is either the primary reason or a major reason or a significant reason.

There are many instances in which, if the American company did not establish a plant in a foreign country, then that plant or that kind of plant would be established by a foreign company and the American company would lose the export channel and the special market opportunity provided by its control of that particular facility.

Mr. Fraser. What about the cases—and they may be limited in number—of American companies putting part of their manufacturing process abroad and then reimporting the item that has been processed abroad?

Mr. Steinberg. Well, I think that the percentage of total production abroad that is shipped back into the United States is no more than 10 percent, and I have seen figures that are less than that. Maybe Mr. McNeill has some.

Mr. McNeill. The study that we in ECAT did was of 74 multinational corporations who together represent about half—I think 48 percent—of all U.S. overseas direct investments, so it is a very representative sample.

One of the things that we wanted to ascertain was a geographic breakdown of sales by foreign subsidiaries, and, for the years 1960,

1965, and 1970, non-Canadian—and I will come back to the reason for that exception—manufacturing affiliate sales abroad that came back to this country were 2.1 percent in 1960, 1.8 percent in 1965, and 2.3 percent in 1970.

Mr. FRASER. What is the gross dollar volume?

Mr. MCNEILL. I have the statistics here, but I would have to thumb through and get them for you. The fact is that about 85 percent or 88 percent of sales of overseas affiliates are in the market where the direct investment is placed—that is, a French company satisfying a French market. Another 12 percent or so represents sales to third countries—for example, France IBM selling to German IBM. But the volume that comes back to the United States in our survey hovers around 2 percent. Of that 2 percent that does come back to the United States, very little is in what we call competitive products.

Some of our members are food products companies who import sugar and things like that. So a lot of that 2 percent is made up of raw materials.

I think the statistic clearly shows that the purpose of the foreign investment again is not satisfaction of the U.S. market. It does not happen. It is the rare instance when the product comes back to the United States.

Mr. FRASER. It does happen sometimes, I gather.

Mr. MCNEILL. Yes, sir.

TAXATION OF FOREIGN INVESTMENTS

Mr. FRASER. Let me ask you another question about the tax status. In the case of production abroad, the taxes that are paid to the foreign government are subtracted from the taxes due to the U.S. Government.

Mr. MCNEILL. No, sir.

Mr. FRASER. How does that work?

Mr. MCNEILL. That is what the Hartke-Burke bill would do. The way that it now works is that foreign source income is not taxable in the United States until it is realized by the parent company.

Mr. FRASER. Right.

Mr. MCNEILL. So any distributions from subsidiaries abroad to the parent company are taxable in the United States. Until they come back, tax obligation is deferred.

Mr. FRASER. How are they treated? What is the procedure?

Mr. MCNEILL. When they are repatriated, the amount paid to the foreign government is credited against the U.S. tax obligation.

Mr. FRASER. It is not a deduction from income but it is a credit against the tax?

Mr. MCNEILL. Yes. In other words, if you have a unit of a hundred as profit and the German rate is 48 percent and the U.S. rate 48 percent and you repatriate the earnings back, you would get a full offset for the payment to the Government of the Federal Republic of Germany in order to avoid double taxation of the same income.

Mr. FRASER. I am trying to be the devil's advocate here.

Mr. MCNEILL. I understand.

Mr. FRASER. In the case of a domestic corporation, they are subjected in most States to a double taxation—at the State level and the Federal Government.

Mr. MCNEILL. Yes, they are subjected to a double tax, but the State tax is deducted from the Federal tax obligation.

Mr. FRASER. Not as a credit?

Mr. MCNEILL. It is a business expense.

Mr. FRASER. As a business expense.

Mr. MCNEILL. That is correct, sir.

Mr. FRASER. Now, one of the arguments that is made is that we should accord similar treatment to foreign taxation. In other words, rather than being a credit against the tax, it ought only to be a business expense. What is your view of that argument?

Mr. MCNEILL. I think it is a very clear view. I think that you cannot tax the same income twice.

Mr. FRASER. But you have that problem between State and Federal taxes.

Mr. MCNEILL. No, you don't.

Mr. FRASER. Yes, you do.

Mr. MCNEILL. If as a corporation you pay a tax to the State of California, you can deduct that as a business expense from the Federal tax obligation.

Mr. FRASER. All right. Let us say you have a plant in Mexico and they impose some kind of a corporate tax.

Mr. MCNEILL. Yes.

Mr. FRASER. Why not treat that tax paid as a business expense when the earnings are repatriated rather than as a credit against the tax itself?

Mr. MCNEILL. Could I give you an arithmetical illustration and then that might give you the answer?

Mr. FRASER. Yes.

Mr. MCNEILL. All right. Let us take again a profit of a hundred. Let us take a foreign tax rate—and, incidentally, the income tax rates against corporations abroad tend, with the exception of less developed countries, to be within a few percentage points of the U.S. rate—so, taking that as an observation instead of an assumption, and you, let us say, have a foreign tax rate of 50, with a profit of $100 you would pay $50.

What you are saying is, you would then like the other $50 remaining to be paid to the U.S. Government in the form of a tax.

Mr. FRASER. No.

Mr. MCNEILL. That is what you are saying, sir—that you won't get a credit.

Mr. FRASER. No.

Mr. MCNEILL. All right.

Mr. FRASER. Let us say $100 profit earned abroad, you pay $50 of that to the foreign country.

Mr. MCNEILL. Yes.

Mr. FRASER. You then are left with the repatriation of $50——

Mr. MCNEILL. Yes.

Mr. FRASER (continuing). Which is then subjected to the U.S. corporate tax of, let us say, 50 percent. You would not take the entire $50; you would take half of it.

Mr. MCNEILL. Well, I think, sir, that if you remove the foreign tax credit, you would have a taxation of a hundred.

Mr. FRASER. No, you would not.

Mr. MCNEILL. If you take your illustration, it was a business deduction.

Mr. FRASER. Let me illustrate. Suppose you had a State tax rate of 50 percent and a Federal tax rate of 50 percent.

Mr. MCNEILL. You would have no domestic corporations.

Mr. FRASER. You are wrong.

Mr. MCNEILL. If you had a tax of 100 percent——

Mr. FRASER. The State tax becomes a business expense. You have paid 50 percent on the dollar; that leaves you with 50 percent to the Federal Government; you are left with 25 cents profit after taxes.

Mr. MCNEILL. Sir, if you had a Federal system in which the State rate—of which there are 50—and the Federal rate—of which there is one, are at the same rate of taxation—I don't see how you could maintain the kind of an economic system that we have now.

Mr. FRASER. Now you are generalizing.

Mr. MCNEILL. Yes, I am generalizing.

Mr. FRASER. Are my facts right? If you have two jurisdictions and each taxes at 50 percent and the tax of one becomes a business expense, you will end up with a net profit of 25 cents on the dollar which was earned before either jurisdiction applied its tax.

Mr. MCNEILL. If you had a business deduction, yes.

Mr. FRASER. Right. That is the point I am making.

Mr. MCNEILL. So if you remove the foreign tax credit and you had a profit of $100 and a foreign tax rate of 50 and you repatriate back the remaining 50 and allowed not a credit but a business deduction, your effective tax rate would be 75 percent on the hundred.

Mr. FRASER. Now we are in agreement.

Mr. MCNEILL. Yes.

Mr. FRASER. No; we are agreed on the facts, but perhaps not on the economic impact, but my time has run out for that purpose.

Mr. CULVER. Mr. Whalen.

THE ROLE OF THE TARIFF COMMISSION

Mr. WHALEN. Thank you, Mr. Chairman. Gentlemen, I find it helpful to me as we go along to try to accumulate and synthesize testimony that has been given, and I think without exception all of our witnesses have indicated that the adjustment assistance provision of the 1962 act has been ineffective.

I believe Mr. McNeill, you verified this in your statement on page 5, where you pointed out it is too restrictive. So you recommend that we make it much less restrictive—liberalize it, in other words.

Without exception our witnesses also have indicated that the benefits should be extended or expanded.

Finally, most of our witnesses have recommended that trade adjustment procedures should be changed; you apparently agree with Mr. Curtis that consideration of the problems arising from foreign trade should be incorporated or integrated in the whole job picture.

In the light of this, then, would you concur with Mr. Curtis that we should eliminate that section of the 1962 act which provides that applications be heard by the Tariff Commission?

Mr. McNeill. No, sir, I don't think that I would. There has to be a hearing. If the question is "Who does it?" I am not all that concerned. It could be a special adjustment assistance board established by the President and representatives of the Secretaries of Commerce and Labor.

But I think that the Tariff Commission is in the best possible position to carry out these investigations because of the nature of its business and its general knowledge about trade statistics. I know that there is a view that for a 7-year period they misinterpreted the intent of the Congress. I was one of those who was involved in writing or helping in formulating that program in 1962, and I think the intent of the Congress was that the test for eligibility be a tough one. With liberalized criteria, I see no reason why the Tariff Commission should not be maintained in the picture as the basic investigatory body.

SHOULD THERE BE A NATIONAL MANPOWER PROGRAM?

Mr. Whalen. Well, I was intrigued by the point Mr. Curtis made in which he indicated that there might be many factors for job loss and, in individual instances, there might be a combination of factors. As I interpreted his remarks, he suggested that we look at the entire range of unemployment causes and not try to determine or assess what caused a particular job loss.

Mr. McNeill. Right.

Mr. Whalen. Rather, Mr. Curtis, as I interpreted his remarks, suggested that we concentrate on retraining these unemployed workers and getting them back into the mainstream of production. I didn't know whether you agreed with that.

Mr. McNeill. We fully agree, Mr. Whalen. We think that the problem is the person who is not working or the firm that is not operating profitably. That is the problem. If the cause happens to be a shift in Government procurement or a railroad spur no longer going into a community, then the problem is the same, only the cause is different.

I think the purpose of adjustment assistance should be to accommodate the disadvantages of the unemployed and bring them back in the mainstream.

I met yesterday with some AFL–CIO people to talk about adjustment assistance. One of the problems noted was that of labor mobility.

For example, there are all kinds of people in urban areas who perhaps could find employment outside of those areas who just won't leave for various reasons.

How one gets around this problem is a very difficult issue. So I think we would emphasize, in industrial adaptation or whatever you want to call the broadened program, a sort of a commitment to relocate as a condition of retraining and income maintenance.

Mr. WHALEN. Of course, would this problem not also exist in those areas where jobs have been lost due to foreign trade?

Mr. MCNEILL. Absolutely, sir.

Mr. WHALEN. Yes, Mr. Steinberg.

Mr. STEINBERG. Mr. Whalen, I would share Mr. McNeill's view regarding the function of the Tariff Commission as the adjudicator of these petitions. I am concerned, among other things, about the possibility that if you put this function into the executive agencies, I think you run a risk of exposing the program perhaps to some political abuse.

I also feel—and this I grapple with in my prepared statement—that the Tariff Commission might be reconstituted as an appeals board for the operation of an adjustment program. In other words, you need broadly gaged governmental instrumentalities to deal with the whole question of dislocation, the whole question of adjustment regardless of the cause.

Now, it is conceivable to me that a group of workers may try to wend its way through this maze of agency jurisdictions and the overall adjustment program and not be treated fairly. It seems to me that there ought to be at the end of the line some kind of an appeals board to deal with the residual questions, residual discontent, residual grievances, and perhaps the need for extraordinary Government assistance beyond the assistance given by the various instrumentalities of the adjustment assistance mechanism.

Therefore, attention should be given to the possibility of the Tariff Commission's being set up as an appeals board called something else besides the Tariff Commission.

Then I would add the following response to the point you were making regarding labor leaders being disenchanted with the operation of the manpower program and so forth. This is a subject that came up earlier today, Mr. Chairman, regarding the operation of various programs.

How can the Congress insure that these programs are adequately administered? I would agree with Tom Curtis' view that the Congress should give a great deal of attention, beyond its legislative responsibilities, to its surveillance, its so-called oversight responsibilities. And if you had this, this would really fit very well, I think, into what I was suggesting earlier regarding executive accountability to the Congress on the operation of the adjustment programs, the progress of U.S. international competition, so that the Congress would, in a structured, continuing way, have an opportunity to determine the effectiveness of these various programs.

There are too many instances, it seems to me, where the Congress passes legislation and then, in effect, says to the executive, "Good luck, and we will see you 5 years from now" or something and, in the meantime, a lot of crises develop, programs in certain cases are not adequately administered, and then the Congress is faced with all kinds of complaints from the boondocks about bureaucracy and the effectiveness of the programs, questions that should have been answered and dealt with in an orderly way through appropriate congressional involvement in the whole process of oversight.

THE ECAT STUDY ON MULTINATIONAL CORPORATIONS

Mr. WHALEN. Gentlemen, I assume, from your comments, then, that you agree that we should have some integrated, coordinated approach to manpower training, trying to overcome the unemployment, whatever the cause, but that you would still maintain a separate approach insofar as those jobs lost due to international trade.

One final question, Mr. McNeill. You indicated that your organization had completed a study dealing as I recall, with 75 member firms. Could you quickly summarize the results of that study?

Mr. MCNEILL. Yes, I could, sir, and I will leave this study with you. On pages 4 and 5, it summarizes the two volumes. What it generally shows, sir, is that the multinational company tends, by any measurement of economic activity, to outperform the manufacturing economy as a whole.

It shows that, in terms of job creation—and by "job creation" I don't mean jobs acquired through acquisition but pure job creation—that they outperform the economy as a whole by between 50 and 75 percent in terms of job creation.

It shows that in terms of exports these 74 companies, as recently as 1970, had net exports in the neighborhood of $3 billion to $4 billion. If you take the U.S. Department of Labor figure of 60 to 70 percent of this, roughly, American workers in 74 companies working on export trade, it shows that in terms of the capital account of the payments balance they are very substantial importers of earnings from abroad, to the extent of several billions of dollars.

It shows that, whether you look at it in terms of jobs or balance of payments or any other measurement, these companies are progressive, healthy, vital, and terribly important to the Nation.

Mr. WHALEN. Mr. Chairman, if it is not out of order, I ask unanimous consent that this study be incorporated in the hearing record.[3]

Mr. CULVER. Without objection, so ordered.

Mr. Steele.

ALTERNATIVES TO TRADE RESTRICTIONS

Mr. STEELE. Thank you, Mr. Chairman. Mr. Steinberg, I have a question that perhaps you could submit the answer to or perhaps it is in your prepared testimony, if you have one.

You talked at length about the fact that the United States does not have a coherent policy to help those industries which have been the focus of restrictions and efforts to help them in the past, and you pointed out the textile industry and the steel industry, et cetera.

I am wondering, would you outline some of the specifics which such a policy might include? Let us take the textile industry, for example, and you must have a dozen specifics that I would be very interested in. The hour is late; I think we all have to go over to the floor, and perhaps you could submit that.

Mr. STEINBERG. I will be very brief on this, Congressman Steele. I don't have a blueprint of the kind of textile policy that would adequately meet the problems of the textile industry. I think it would be

[3] See Emergency Committee for American Trade "The Role of the Multinational Corporation in the United States and World Economics," on p. 477 of the appendix.

presumptuous of anyone to come up with some precise ideas on what might be done for that industry or any other industry in the absence of a thorough assessment of the problems of the industry and the adjustment needs of the industry, but I think one of the major elements of coherent Government attention to the adjustment problems of an industry is Government review of the laws and regulations that materially affect the competitive position of that industry in today's world. And I think that the textile industry situation offers a classic example, so let me just cite the example.

For some 8 years or 9 years, the United States had a two-price policy with respect to raw cotton. The Government was charging American cotton textile mills the support price for our cotton and we were selling raw cotton abroad at the world price, and the world price was very roughly in the area of 25 percent less than the support price.

Now, obviously, this placed a very unfair burden on the U.S. cotton textile industry. The cotton textile industry was opposed to this. We, as free traders, at least in our committee, were opposed to this as an inequity, as unfair to the textile industry.

Fortunately—I believe it was in the mid 1960's—Congress passed legislation which removed this inequity. How it was removed, I think, is still controversial, but the point to be made is that this inequity was removed.

Now, I pose the question: How many more unfair laws and regulations materially affect the competitive position of the American textile industry? I think that any industry that comes to Government in search of help against rapidly rising and increasingly troublesome foreign competition should expect from Government a reassessment of existing laws and regulations at least as a starting point, and if there are inequities, let us get them removed. If there are no inequities, at least we have made this kind of assessment, and then we proceed from there. What additional help is needed for this industry? And then a coherent policy can be worked out, not just by Government but by Government in cooperation with the indutry and in cooperation with the unions and State and local governments, the communities in which these textile plants exist.

Mr. Steele. Thank you.

Mr. Culver. Thank you very much, both Mr. McNeill and Mr. Steinberg, for your help today; it has been very helpful to the subcommittee.

The subcommittee will now stand adjourned.

(Whereupon at 12:30 p.m., the subcommittee adjourned, to reconvene at 2 p.m., Tuesday, May 9, 1972.)

TRADE ADJUSTMENT ASSISTANCE

TUESDAY, MAY 9, 1972

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY,
Washington, D.C.

The subcommittee met at 2:28 p.m., in room 2172, Rayburn House Office Building, Hon. John C. Culver (chairman of the subcommittee) presiding.

Mr. CULVER. Today, this subcommittee begins its fourth day of hearings on the concept and workings of adjustment assistance. During the first week of hearings we received testimony from knowledgeable private witnesses, including representatives of labor and business. This week, we shall hear on Wednesday from the Departments of Labor and Commerce, and then on Thursday from the Department of State, along with the Office of the Special Trade Representative.

While these hearings are not yet complete, there has emerged something of a consensus to the effect that adjustment assistance, at least in the long term, should not be confined only to trade-related dislocations, but should properly be part of a comprehensive national manpower and investment mobility program such as is found in the economies of some of our leading European trade competitors.

This afternoon, we shall hear from two men who are acknowledged authorities in the field of manpower policies, Dr. Charles C. Holt, the director of a research project on inflation, unemployment and manpower policy at the Urban Institute; and Dr. Herbert E. Striner, Dean of American University's College of Continuing Education.

Both men have recently published studies on the problem of developing and implementing effective manpower training and education programs.

Dr. Holt's "Manpower Programs to Reduce Inflation and Unemployment; Manpower Lyrics for Marco Music," and Dean Striner's "Continuing Education as a National Capital Investment," have been gaining recognition as fresh and important approaches to solving the interrelated problems of unemployment, productivity, inflation, and international competitiveness.

In order to stimulate the open exchange of ideas both witnesses will present their statements and then we shall proceed with a panel format for questions.

We will begin this afternoon by welcoming Dr. Holt.

STATEMENT OF CHARLES C. HOLT, DIRECTOR OF A RESEARCH PROJECT ON INFLATION, UNEMPLOYMENT AND MANPOWER POLICY AT THE URBAN INSTITUTE

Mr. HOLT. I am Charles C. Holt, director of a research project on inflation, unemployment and manpower policy of the Urban Institute, which is an independent, nonprofit research organization, in Washington, D.C., and is devoted primarily to applied, policy oriented research. Accompanying me are two of my research colleagues, Drs. Stuart O. Schweitzer and Ralph E. Smith. I am pleased to testify before the subcommittee on trade adjustment assistance, and its relation to domestic economic policy.

Although I will be drawing heavily on research that is being supported by the National Science Foundation, the Department of Labor, and the Ford Foundation. I testify today as an independent researcher.

As you know, one of our critical domestic problems is trying to attain full employment without inducing inflation. Study of this problem has led us to examine rather deeply the structure of labor markets and the role of manpower programs in improving that structure. We hope that this work will throw some light on the problems before the subcommittee. In particular, we will draw heavily on two Urban Institute reports: "The Unemployment-Inflation Dilemma: a Manpower Solution," and "Manpower Programs to Reduce Inflation and Unemployment; Manpower Lyrics for Macro Music."

I will try to summarize my statement briefly and then with the chairman's permission, I would like to put the full statement in the record.

Mr. CULVER. Without objection, so ordered.

(The prepared statement of Mr. Holt appears on p. 202.)

Mr. HOLT. The problem of assistance to workers in adjusting to changes in the pattern of U.S. exports and imports is a serious one which is closely related to the larger problem of inflation and unemployment which we have been studying. If we were able to operate the domestic economy at full employment without inflation, then workers and employers, who are adversely affected by the changing mix of demand for American production, could shift to new production with a minimum of disruption.

Unfortunately, the structural imbalance and frictions in our labor markets are so serious that we have difficulty in getting unemployment down to desirable levels, and when we do, by increasing the stimulation of aggregate demand, we tend to induce excessive inflation. Our response is to intentionally raise unemployment in order to fight inflation. Thus, instead of a fluid high demand domestic economy that facilitates the adjustments to changes in the mix of our relatively small international trade, we chronically maintain a slack economy in which needed adjustments are slow and painful. This results, in considerable part, because (1) the search for new jobs is inefficient and accounts for excessively long durations of unemployment between jobs; (2) turnover rates resulting from quits and layoffs are excessively high so job duration is short between bouts of unemployment; (3) barriers between labor markets resulting from geography, training requirements,

discrimination, seniority, licensing, et cetera, decrease the efficiency of job search, and (4) the imbalances that build up between different segments of the labor market increase inflationary pressures in the tight segments and increase unemployment in the slack segments.

These structural and frictional problems in the labor market inhibit the adjustments that changes in the pattern of trade require with the result that workers and employers quite legitimately try to protect their interests by resisting increases in imports and losses of exports. Unfortunately, their actions tend to introduce additional rigidities that reduce consumer choice and make labor markets less responsive.

The introduction of effective trade adjustment assistance for all of the workers who are directly affected would not fully answer the problem, because, in addition, others are indirectly affected. If the jobs in a community were reduced because of an increase of imports, workers in service industries and workers in other industries into which the displaced workers move would both suffer increased unemployment and downward pressure on wages. On both administrative and equity grounds, it is hard to justify helping workers suffering unemployment for some reasons while neglecting others whose unemployment arises from different sources equally beyond the worker's control.

Hence, it is hard to solve the trade adjustment problem in isolation from the general problems of adjustment in the labor market. The general problem of labor market adjustment and efficiency affect the inflation and unemployment setting in which trade adjustment problems must be solved. High inflation will contribute to balance-of-payments problems and high unemployment will decrease the effectiveness of adjustment assistance programs. For these reasons we would suggest that the subcommittee needs to concern itself with the larger issues of manpower programs generally, the structural reform of labor markets, and their roles in the general inflation and unemployment problems.

Aggregate demand measures can stimulate an abundance of new jobs to offset any loss of old jobs provided only that the costs of adjustment are not allowed to penalize particular groups, and that the inflationary response is not excessive. It is for these reasons that I choose this afternoon to stress the role of labor markets in the unemployment and inflation processes and the manpower programs that would be needed to secure general improvements in the domestic economy.

In section II below, I discuss in more detail the structural problems of the labor market, the adverse inflation-unemployment relation that the United States faces and the dilemmas for both domestic and international economic policies that follow. In section III the policy implications of this analysis are drawn and a set of program recommendations are summarized. I now turn briefly to these sections.

If you look at the figure immediately following page 4, the inflation-unemployment tradeoff for the United States compared with that of other countries, you can see that the United States tends to have at any given level of unemployment either a higher inflation rate than most of the other countries—Canada being the only one that comes close to being as adverse as the United States. Or if you want to view it the other way, for a given inflation rate, the United States has a much higher unemployment rate.

This is an indication of the problem that the United States has. We are almost in a class by ourselves in terms of our unemployment tradeoff. That, of course, adversely affects our international problem.

Figure 2 a couple of pages later shows in a very sketchy way the kind of search process that is involved in the labor market where you have a stock of unemployed workers searching for jobs and a stock of job vacancies which reflect employers researching for workers. There is a tremendous inflow into the stock of unemployment. Each month something of the order of 4 percent of the labor force flows into the stock of unemployment and this means in the course of a year approximately 40 million people flow through labor markets. So the turnover is really tremendous and the duration of unemployment for individual workers is about a month or two so that the continuing problem of unemployment in the economy is a very dynamic affair. It is not a group of people who are permanently frozen out of employment. Rather, when 5 million people leave unemployment, there is another 5 million right behind them to take their places. Thus, the stock of unemployment is continually replenished.

Now, if you look at different times in the business cycle, when there is a very large stock of job vacancies there will be a small stock of unemployed workers because then it is relatively easy to find a job. Conversely, if there is a very small number of job vacancies, then the stock of unemployed workers is very high. Figure 3 below indicates this inverse relationship between vacancies and unemployment.

When the ratio of vacancies to unemployment is made very high, as the means of getting unemployment down, this unfortunately creates a great deal of upward pressure on money wages which gets passed on to prices. If we decrease the number of vacancies to fight inflation, we end up with low vacancies but high unemployment.

Because of the frictional constraints of the labor market, when we try to solve the unemployment problem by increasing aggregate demand we do it at the cost of inflation. This is not an acceptable way to solve the problem.

The need is to make basic structural changes in the labor market that will move the vacancy-unemployment relationship. This will reduce the number of unemployed workers and reduce the number of vacancies symmetrically so that both unemployment and inflation are reduced.

The next portion of the statement spells out the action implications as we see them in terms of present knowledge about the operation of the labor market. You will see on figure 4 the long-term tradeoff for the United States between inflation and unemployment.

I might just add in passing that the target that the Nixon administration is currently shooting toward is something like 4½ percent unemployment and 3 percent per year inflation rate. As good as that sounds, compared with our present state of the economy, we should not be misled into thinking we will be very pleased with that situation, because under those circumstances we would still have an unemployment rate for black teenage girls on the order of 31 percent. We would not be happy to call that full employment.

Now, the implications of this domestic economic dilemma for international trade issues are extremely critical. If we solve our inflation

problem, by maintaining a continuing high level of unemployment, then trade adjustment programs will be relatively ineffective for both firms and workers and stout political pressure for trade restrictions can be anticipated to protect American jobs.

On the other hand, if the reduction of unemployment is given top priority, we can expect inflation that may require monetary devaluations in order to protect reserves of foreign exchange.

We conclude that there is a clear need for governmental intervention in the labor market on the macro level with new kinds of manpower policies and programs on sufficient scale to have important impacts of inflation and unemployment. The objectives of these programs should be to: (1) speed the adjustment of the labor market to disturbances in order to minimize disequilibria that contribute to inflation and unemployment; (2) attain better equilibria by offsetting the effects of externalities; (3) secure the economies of scale and expertise in collecting, processing, searching, analyzing and transmitting market information, including projections, about jobs, workers, and services; and (4) reducing institutional barriers to adjustments. Accordingly, we suggest programs and policies that stress efficiency, growth and reduction of inflation. The objectives are distinct from and augment those of our existing manpower strategy, which focuses primarily upon the poverty problem.

I will pass over the next section very briefly in the interests of time.

The full report contains fairly detailed recommendations dealing with what we would need to do with the Employment Service to improve the matching of workers to jobs and to manpower services, what might be done with the critical high unemployment problem of youth in the direction of improved counseling at the school level tied in with jobs so that the counselors would be able to be of important help to young people in making the transition from school to work.

One area that is neglected by our present manpower programs is training to reduce skill shortages which are inflationary. Most of our present programs are oriented toward the disadvantaged, which is certainly an important objective, but they do not reach our macroeconomic objectives.

Geographic imbalances contribute to both inflation and unemployment. We need to make the labor market more fluid by aiding geographic mobility. Many institutional barriers seriously segment the market and decrease its efficiency.

Table 1 at the end of the statement lists our estimates of how large a program and the sizes of the various components needed to have an important macroeconomic impact. We estimate a program something on the order of $14 billion, of which something like $9 billion might come from the Federal budget and the balance would come from the workers and employers who are the direct beneficiaries.

The theory for making impact predictions is somewhat inadequate, but we estimate that this program would produce a decrease in unemployment on the order of 2 percent and would raise gross national production by something on the order of $30 billion.

In contrast to what our present programs are, which are shown on table 2, you can see that we are now spending something on the order of $5 billion of which $1 billion is a public employment program.

Another $5 billion is essentially income maintenance in the form of unemployment compensation.

To put the size of these programs in perspective, the total wage bill for the economy as a whole was $574 billion in 1971. We are spending something on the order of $4 billion to reduce labor market frictions and upgrade a labor force that produces $574 billion. Just in terms of the scale alone, it is impossible to have manpower programs that are adequately effective.

The Williams Commission recommended, among other things, that serious attention be given to the problems of inflation, unemployment, and labor market imperfections, so we seem to be approaching an understanding and acceptance of the strong interaction between the macroeconomic problems of inflation and unemployment, manpower programs, and the international problems that the country faces.

Thank you.

(The prepared statement follows:)

STATEMENT OF CHARLES C. HOLT, THE URBAN INSTITUTE

TRADE ADJUSTMENTS AND THE LABOR MARKET

I am Charles C. Holt, Director of a research project on Inflation, Unemployment and Manpower Policy at the Urban Institute, which is an independent, nonprofit research organization, in Washington, D.C., which is devoted primarily to applied, policy-oriented research. Accompanying me are two of my research colleagues, Drs. Stuart O. Schweitzer and Ralph E. Smith. I am pleased to testify before the Subcommittee on trade adjustment assistance, and its relation to domestic economic policy.

Although I will be drawing heavily on research that is being supported by the National Science Foundation, the Department of Labor, and the Ford Foundation, I testify today as an independent researcher.

As you know, one of our critical domestic problems is trying to attain full employment without inducing inflation. Study of this problem has led us to examine rather deeply the structure of labor markets and the role of manpower programs in improving that structure. We hope that this work will throw some light on the problems before the Subcommittee. In particular, we will draw heavily on two Urban Institute reports: *The Unemployment-Inflation Dilemma: A Manpower Solution*, and *Manpower Programs to Reduce Inflation and Unemployment: Manpower Lyrics for Macro Music*.

I will try to summarize my statement briefly and then with the Chairman's permission, I would like to put the full statement in the record.

I. OVERVIEW

The problem of assistance to workers in adjusting to changes in the pattern of U.S. exports and imports is a serious one which is closely related to the larger problem of inflation and unemployment that we have been studying. If we were able to operate the domestic economy at full employment without inflation, then workers and employers who are adversely affected by the changing mix of demand for American production, could shift to new production with a minimum of disruption.

Unfortunately the structural imbalances and frictions in our labor markets are so serious that we have difficulty in getting unemployment to desirable levels, and when we do by increasing the stimulation of aggregate demand, we tend to induce excessive inflation. Our response is to intentionally raise unemployment in order to flight inflation. Thus, instead of a fluid high demand domestic economy that facilitates the adjustments to changes in the mix of our relatively small international trade, we chronically maintain a slack economy

in which needed adjustments are slow and painful. This results in considerable part because: 1) the search for new jobs is inefficient and accounts for excessively long durations of unemployment between jobs, 2) turnover rates resulting from quits and layoffs are excessively high so job duration is short between bouts of unemployment, 3) barriers between labor markets resulting from geography, training requirements, discrimination, seniority, licensing, etc. decrease the efficiency of job search, and 4) the imbalances that build up between different segments of the labor market increase inflationary pressures in the tight segments and increase unemployment in the slack segments.

These structural and frictional problems in the labor market inhibit the adjustments that changes in the pattern of trade require with the result that workers and employers quite legitimately try to protect their interests by resisting increases in imports and loss of exports. Unfortunately, their actions tend to introduce additional rigidities that reduce consumer choice and make labor markets less responsive.

The introduction of effective trade adjustment assistance for all of the workers who are directly affected would not fully answer the problem, because, in addition, others are indirectly affected. If the jobs in a community were reduced because of an increase of imports, workers in service industries and workers in other industries into which the displaced workers move would both suffer increased unemployment and downward pressure on wages. On both administrative and equity grounds, it is hard to justify helping workers suffering unemployment for some reasons while neglecting others whose unemployment arises from different sources equally beyond the worker's control.

Hence, it is hard to solve the trade adjustment problem in isolation from the general problems of adjustment in the labor market. The general problem of labor market adjustment and efficiency affect the inflation and unemployment setting in which trade adjustment problems must be solved. High inflation will contribute to balance of payments problems and high unemployment will decrease the effectiveness of adjustment assistance programs. For these reasons we would suggest that the Subcommittee needs to concern itself with the larger issues of manpower programs generally, the structural reform of the labor markets, and their roles in the general inflation and unemployment problems.

Aggregate demand measures can stimulate an abundance of *new* jobs to offset any loss of *old* jobs provided only that the costs of adjustment are not allowed to penalize particular groups, and that the inflationary response is not excessive. It is for these reasons that I choose this afternoon to stress the role of labor markets in the unemployment and inflation processes and the manpower programs that would be needed to secure *general* improvements in the domestic economy.

There seems to be general agreement that adjustment assistance in the past has been inadequate and about the directions for needed improvement (See Stanley D. Metzger, Marvin M. Fooks, and the Department of Labor, pp. 319, 343, and 303 in Papers I of the Williams Commission). However, note that the assistance that has been supplied by the Department of Labor has been, and evidently would continue to be, almost entirely in the form of extended unemployment compensation.

Against this historical background and the general inadequacies of the labor market and our economic performance, it is not surprising to see the AFL–CIO seeking to avoid making trade adjustments by the protective approach of the Burke-Hartke bill (see testimony before this Subcommittee of April 25, 1972).

Some of the larger issues to which I have referred have been pointed out by Thomas B. Curtis of the Chamber of Commerce (see testimony before this Committee, April 26, 1972).

In Section II below I discuss in more detail the structural problems of the labor market, the adverse inflation-unemployment relation that the United States faces and the dilemmas for both domestic and international economic policies that follow. In Section III the policy implications of this analysis are drawn and a set of program recommendations are summarized. I now turn briefly to these sections.

II. ANALYSIS OF UNEMPLOYMENT, INFLATION AND LABOR MARKETS

In this discussion we describe the relationship between micro aspects of the labor market, such as structural imbalances, and the macroeconomic dilemma facing the country in which we are unable to achieve full employment at an acceptable rate of inflation. Because of this relationship, manpower programs directed at altering the structure and functioning of the labor market are suggested as remedies for the unfavorable unemployment-inflation situation in which we appear to be trapped. While the frictions in the labor market that will be analyzed here adversely affect the inflation-unemployment trade-off, this is not the whole story. Market power in the hands of corporations and unions also may be important.

We can gain perspective on our problem by looking at the relationship between inflation and unemployment for the United States, in comparison with that for other industrialized countries. Figure 1 shows this comparison from a study by Spitäller.[1] This figure shows that, at all rates of unemployment, except the highest, the attainable combinations of inflation and unemployment, are the least favorable for the United States—implying either higher inflation, for unemployment rates equal to other countries', higher unemployment rates for equal inflation rates, or both.

STEADY STATE RELATION BETWEEN INFLATION AND UNEMPLOYMENT

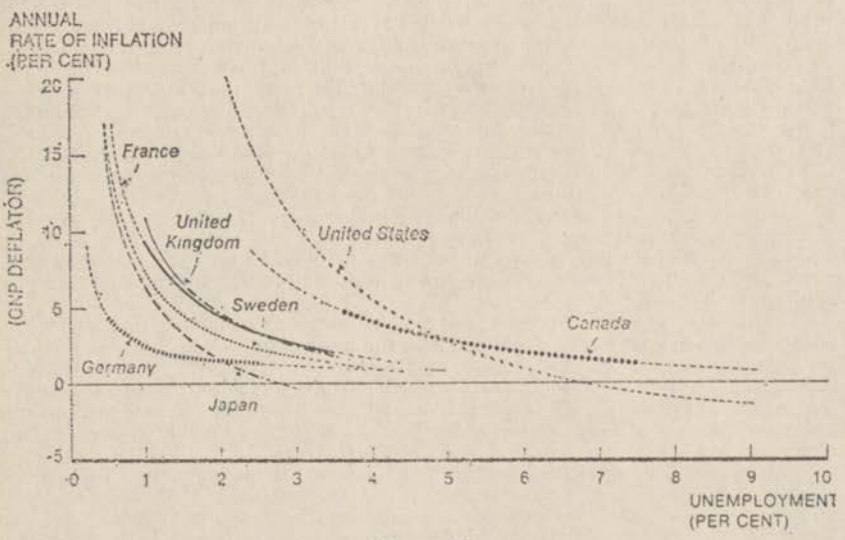


FIGURE 1

UNEMPLOYMENT AND JOB SEARCH

There is abundant evidence that the abilities and tastes of workers are complex and varied, and that the requirements and inducements of jobs are similarly complex and differentiated. Consequently, a time-consuming search

[1] Erich Spitäller, "Prices and Unemployment in Selected Industrial Countries," *International Monetary Fund Staff Papers*, vol. 18 (November 1971).

process for both worker and employer is required to attain employment matches that will be both satisfying and productive. Unfortunately the process is often impeded by such barriers as prejudice, union membership, and hiring policies not geared to productivity. Geographic distance further segments the labor market. Also, once employment relationships are established, they are often soon ended by quits or layoffs, so employers and workers must resume searching the labor markets.

In the American economy roughly one man in twenty is searching or waiting for a job which lasts, on the average, only two years. Between three and five million workers and a corresponding number of vacancies are continually involved in this search process and the *annual* flow through the labor market is roughly half the size of the labor force. Unemployment is a costly and wearing experience typically lasting weeks or months, and for many workers it is suffered recurrently.

In general, high turnover rates and long search times account for high base levels of both unemployment and vacancies. Some particular groups of workers have relatively high turnover rates and take somewhat longer to find jobs. This results in longer and more frequent bouts of unemployment and hence in higher unemployment rates for these groups. Since job tenure is short, the vacancies must be filled often, and hence there always is a stock of vacancies waiting for workers to be found.

With increases in aggregate demand, employers increase the number of vacancies as they seek more employees in order to increase production. Figure 2 illustrates this stock-flow process. With more vacancies to choose from, the unemployed find jobs more quickly and unemployment rates decline.

INFLATION

The ratio of vacancies to unemployed workers varies over the business cycle. Money wages tend to change when the number of vacancies gets out of balance with the number of eligible workers in the market. When the ratio of vacancies to unemployment is high, wage increases are offered by employers in order to recruit new workers, and employers raise the wages of their present employees more quickly in order to hold them. However, wages can be stable with either high unemployment *and* high vacancy rates, or with low unemployment rates *and* low vacancy rates. High unemployment rates in themselves do not indicate deflationary pressures on wages. They may simply reflect high turnover.

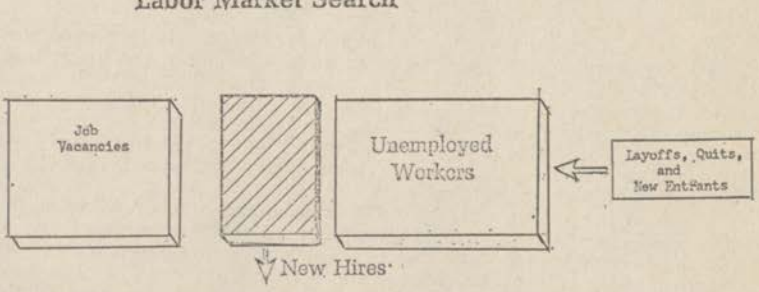


FIGURE 3

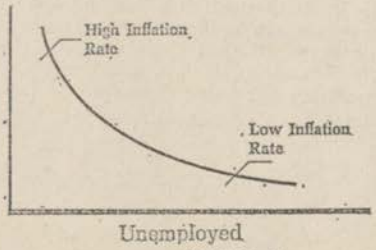


FIGURE 2

Figure 3 illustrates the typical relationship between unemployment and vacancies, and the fact that the inflation rate tends to be high when vacancies are relatively high compared to unemployment. There is a strong tendency for all types of vacancies to increase or decrease in roughly the same proportion when aggregate demand changes, and similarly for the unemployment of all types of workers to change by the same proportion, but in the opposite direction. Thus, fairly stable and persistent equilibrium patterns tend to occur relating the different unemployment and vacancy rates of various groups, cities, occupations, etc.

As the result of these relationships, increases in aggregate demand tend to make the ratios of vacancies to unemployment move together in all labor markets and this tends to put a general inflationary pressure on all markets so that money wages in all sectors tend to rise together. Thus, uniformity of wage movements is not inconsistent with quite different unemployment rates various market sectors.

But when aggregate demand changes, its regional and industrial composition usually changes as well, so the equilibria just discussed are constantly being disturbed and various sectors of the labor market must absorb temporary and permanent changes in the pattern of demand. Decisions to locate new plants, spontaneous shifts of populations, and changes in the composition of our foreign trade, also introduce disturbances.

Hence, superimposed on the equilibrium between unemployment, vacancies and wage change that we have just described, are imbalances in the demand and supply of labor occurring in various segments of the labor market, so that shortages and surpluses of labor can and do appear in particular regions, industries, and occupations. On net, these imbalances between segments contribute more to inflation in the tight segments than they are restrained by the excess of unemployed workers relative to vacancies in the slack segments. Of course, when labor shortages drive up wages in a particular sector, new workers are drawn by the existence of vacancies at attractive wages and after a time the inflation-producing shortage diminishes. In the meantime, however, wages on net are increased.

When demand falls, employers resist laying off highly skilled workers so that the cutback in employment falls most heavily on unskilled, low-paid workers and their earnings are further depressed relative to those of skilled workers.

The growth of population supplies a steady inflow of young people into the labor market; hence, an extra stock of vacancies and continual growth of employment are needed. Thus the unemployment rate particularly for young people will tend to be high when the rate of flow of new entrants into the labor market is high.

IMPACT OF AGGREGATE DEMAND

Now consider what happens as aggregate demand is increased through monetary and fiscal policy. Starting from a slack economy, the growth of vacancies increases employment opportunities, relieves any deflationary pressure on money wages, and attracts increased participation in the labor force. Such a stimulating policy raises output, picks up the slack in labor utilization so that labor productivity rises, stimulates investment in capital and in training, speeds the introduction of capital and labor-saving technology, and speeds up the process of promotion and job upgrading.

When rising aggregate demand increases the number of jobs, the stock of vacancies rises, unemployment declines, and inactive workers are drawn into active job search. The high vacancy, low unemployment market is an environment in which training programs can be very effective in placing their trainees. The inability of employers to fill the high level of vacancies stimulates them to restructure jobs, and to train and reassign their work forces. Employers tend to compete for new workers by increasing wage offers and lowering worker requirements. On-the-job wage increases are used by employers to try to inhibit quits. Some vacancies are so difficult to fill that the employers cease searching.

Because of geographic, occupational, racial, and sexual segmentation of the labor market, it is quite possible for some segments of the market to remain

tight while others are loose. Hence it is possible, temporarily, for some workers to experience high vacancies, upgrading opportunities, and inflationary wage increases, while, at the same time, others are experiencing high unemployment and stagnation.

With further increases in demand, the ratios of vacancies to unemployment rise in most labor markets and the upward pressure on wages is pervasive. However, imbalances occur between market segments leading in some of them to skilled labor shortages,[1] which accentuate the upward pressure on wages. The increased wages are passed on as increased prices, which in turn stimulate demands for compensating wage increases in all industries and lead to expectations of receiving these increases.[2] However, frictions and resistances to changes in wages and prices are sufficient, after a lag to produce an equilibrium rate[3] of wage and price change. The immediate impact of any wage or price increase on workers, employers and consumers is a change in real wages and prices with attendant consequences for standards of living, profit rates, etc., and hence is not viewed causally as just a nominal change in the value of money due to inflation. Hence, the pressures for wage and price changes and the resistances to them typically involve conflict and the expenditure of resources. Very high inflation rates could trigger institutional changes that reduce the resistance to wage and price changes, and this would increase the inflationary response.

Since the above tight labor market situation tends to be inflationary, the governmental response is likely to be to reduce demand by monetary and fiscal policy and as a consequence to reduce the job stock. This lowers the vacancy rate, raises unemployment (particularly of the less-skilled workers), and discourages unemployed workers into dropping out of the labor force. Because of the abundance of unemployed workers, employers have less incentive to restructure jobs, train and reassign their work forces, or hire the graduates of governmental training programs. Because of the decreased pressure for output, employers slow technological innovation, and workers hold back production.

DILEMMA FOR AGGREGATE DEMAND POLICY

The critical dilemma for economic policy in the United States arises because inflationary pressures on money wages occur if full employment is sustained. That is to say, turnover, search time, market segmentation, and imbalances in the labor market prevent unemployment from reaching acceptable levels, unless the level of vacancies is raised so high that inflation results. We are referring here to the long-run sustainable relations, not to temporary ones that reflect delayed responses.

The regulation of aggregate demand alone cannot resolve the dilemma. It can only pursue the least bad compromise and avoid whip-sawing the economy by reacting alternately to acute inflation or to unemployment, thus bringing on the opposite problem. By taking advantage of the lagged response of wages and prices, it is possible to have low unemployment and low inflation—but only temporarily. The opposite case of temporarily high levels of both inflation and unemployment then follows as recent experience amply illustrates. Figure 3 shows the inflation-unemployment record for the United States since 1954. Note that some points do lie below the best-fit line, but these situations are not sustainable in the long run. The long run relation cannot be described as encouraging. Structural changes are indicated, and the question is how best to achieve them.

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[1] Shortages of less-skilled workers can be eliminated if more skilled workers are available.

[2] In concentrating on wage increases we are implicitly using a simple cost markup theory of pricing. However, to explore the effects of structural changes in product markets, or of income policies, a more fully developed theory of wage-price interaction and expectations would be needed.

[3] There is controversy on this point. Some economists argue that the frictions resisting wage and price change are so small that as expectations attempt to catch up, wages must accelerate.

Long Run Inflation—Unemployment Trade-Off 1954-1971

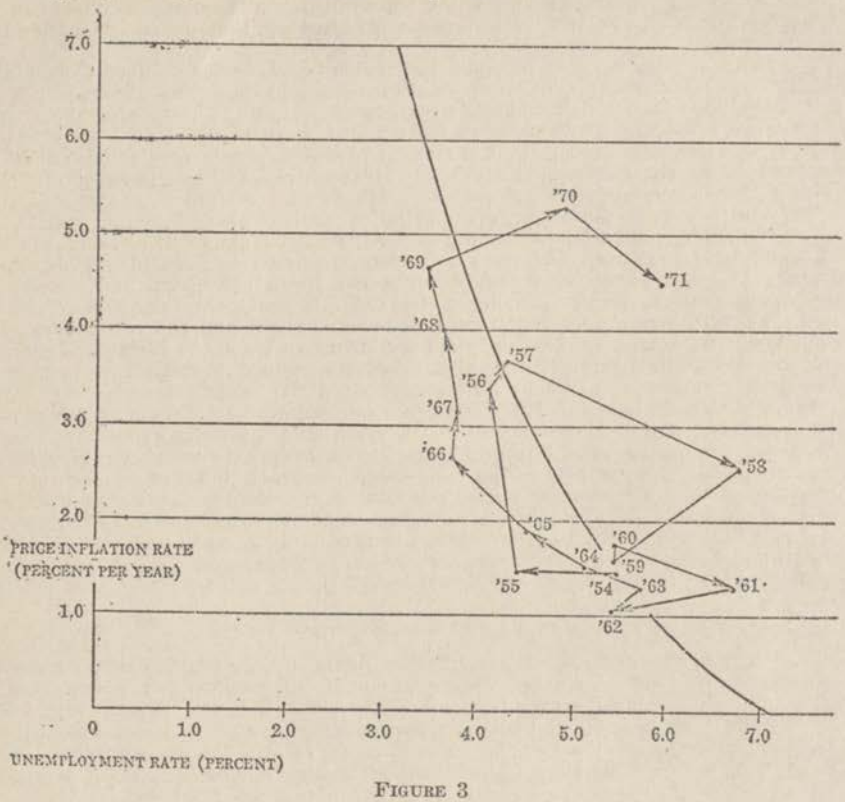


FIGURE 3

Concentration of corporate and union power certainly can affect wages, prices, and profits, so additional measures may well be needed to fully resolve our inflation and unemployment problem. However, the structural frictions that occur in the labor market are sufficient to account for our inflation-unemployment dilemma, without reaching for additional explanations. A reduction of these frictions would yield a better unemployment-inflation trade-off.

IMPLICATIONS OF THE DOMESTIC DILEMMA FOR INTERNATIONAL TRADE ISSUES

If we solve our inflation problem by maintaining a continuing high level of unemployment, then trade adjustment programs will be relatively ineffective for both firms and workers, and stout political pressure for trade restrictions can be anticipated to "protect American jobs." On the other hand, if the reduction of unemployment is given top priority, we can expect inflation that may require monetary devaluations in order to protect reserves of foreign exchange.

We conclude that there is a clear need for governmental intervention in the labor market on the micro level with new kinds of manpower policies and programs on sufficient scale to have important impacts on inflation and unemployment. The objectives of these programs should be to (1) speed the adjustment of the labor market to disturbances in order to minimize disequilibria that contribute to inflation and unemployment, (2) attain better equilibria by off-setting the effects of externalities, (3) secure the economies of scale and expertise in collecting, processing, searching, analyzing and transmitting market information (including projections) about jobs, workers, and services, and (4) reducing in-

stitutional barriers to adjustments. Accordingly, we suggest programs and policies that stress efficiency, growth and reduction of inflation. The objectives are distinct from and augment those of our existing manpower strategy, which focuses primarily upon the poverty problem.

III. POLICY IMPLICATIONS OF THE ANALYSIS AND SUMMARY OF PROGRAM RECOMMENDATIONS

The analysis summarized in the preceding section provides the basis for identifying policies and programs that could shift the inflation-unemployment trade-off. From this analysis we can see that the inflation-unemployment trade-off, known as the Phillips curve, would be moved downward, corresponding to lower inflation for any given unemployment rate, if (1) the turnover rate were reduced, (2) the search efficiency were increased, (3) the responsiveness of wages and prices to the vacancy-unemployment ratio were reduced, (4) exogenous pressures toward inflation were reduced, (5) barriers that segment the labor market were reduced, and finally, (6) imbalances between market segments were reduced.

Reducing turnover would result from increasing the quality of the individual worker-job matches. Increasing search efficiency is a matter of speeding placements. The issues of speed and quality of placements point toward improvements in the employment service function. The reduction of wage and price responsiveness and the reduction of exogenous pressures toward inflation might be approached by incomes, anti-trust, and union policies. The dispersion of unemployment between compartments is interpreted as reflecting a mismatch between the distribution of worker capabilities and preferences on one hand, and the distribution of job requirements and rewards on the other. Reduction of dispersion would require occupational and geographic movements of people and restructuring of jobs. Thus improved training, mobility and industrial engineering would be indicated.

From our estimates of the amount of unemployment dispersion that exists in the economy we can make rough estimates of the costs involved in reducing it. Then by estimating the parameter that indicates the inflation response to dispersion, we can estimate the benefits of reducing dispersion. The benefits can be expressed in terms of reducing inflation or reducing unemployment. Similar direct estimates can be made for other programs.

Our recommendations cover four broad program areas: job matching services to speed placements and reduce turnover; vocational counseling and employment opportunities for youth to reduce their high turnover and increase subsequent productivity; training and job restructuring to reduce inflationary shortages of skilled workers; and geographic mobility assistance to reduce inflationary labor shortages and pockets of high unemployment. In addition, research and experimentation are proposed to determine the most effective techniques for implementing these proposals and for reducing institutional barriers in the labor market. The recommendations in brief follow:

MATCHING WORKERS, JOBS, AND MANPOWER SERVICES

There is a great potential for improvement in the employment service function of bringing together workers, employers, and employment-related services. We recommend that the Federal-State Employment Services be restructured so that each office will assign some staff counselors and interviewers specifically to serve the needs of workers, and some similarly committed to employers. To help motivate and guide the Employment Service staff in making the matches that will best reduce inflation and unemployment while giving special consideration to workers and employers with problems, we recommend the use of incentive formulas that are suggested by labor-market theory. In particular, quality of placement, measured in terms of job tenure, should be stressed to reduce turnover.

To improve the functioning of private employment agencies, we recommend that fee-splitting, standards, etc., be established so that the public and private agencies can cooperate in achieving a flexible nation-wide placement system.

Since some of the Employment Service functions are amenable to automation and others are not, we recommend the urgent development and installation of a nation-wide, computerized, man-machine system for matching workers, jobs, and services. The computer-matching system would incorporate behavioral relationships to help predict, for human follow-up, which of the astronomic number of possible matches hold the greatest promise of being both satisfying for the worker and productive for the employer.

To improve substantially the quality of the Employment Service, we recommend upgrading and expanding the staff and establishing salary levels to attract and retain well-qualified professionals.

We recommend that the Federal Government take the lead in organizing, funding, and coordinating the nation's public-private employment service system, roughly tripling its present capacity.

REDUCING THE HIGH UNEMPLOYMENT OF YOUNG PEOPLE

Certain groups, including youth, blacks, women and the disadvantaged, suffer relatively high unemployment rates. Reducing the unemployment problems of youth contributes to solving the labor-market problems of the other groups, and getting youth off to good vocational starts can produce lifetime benefits. For both teenagers and blacks, more emphasis needs to be placed on preparation for jobs that will last and be worth keeping, and less on simply producing short-term placements. Their high unemployment is largely due to high turnover rates, not to prolonged job search.

We recommend that existing vocational education and manpower programs serving youth, such as the Neighborhood Youth Corps and MDTA training, be redirected toward preparation for employment that will be more stable as measured by reduced turnover rates.

High school programs for students even in vocational schools, are weak in vocational counseling. There is less than one counselor per school, and counselors frequently lack suitable training. We recommend more cooperation between schools and the Employment Service, doubling the number of counselors and improving their trainin.g

To improve the transition from school to work, we recommend that school work-study programs begin for younger students and that employers be subsidized so that they can afford to offer students valid work experience. About one million new work-study and subsidized after-school and vacation job opportunities would be developed.

REDUCING CRITICAL SKILL VACANCIES

When the occupational composition of the work force does not match the distribution of skill requirements, wages go up in the shortage occupations, and those increases spread through the economy. Therefore we urge recruitment of labor from less tight occupations such as those facing foreign trade pressures along with necessary job training to fill the critical skill shortages.

To do this we recommend a data and analysis effort to anticipate or, at least, quickly identify the occupations that are in both long and short supply.

To respond to these scarcities we recommend a major expansion of training that is closely tied to anticipated needs for skilled workers. Only about 70,000 unemployed workers who are not disadvantaged now receive training annually in government-sponsored programs. We estimate that these should be increased by 1.1 million trainees—both on-the-job and institutional—and oriented toward skilled-labor shortages.

Many skilled-worker shortages can be avoided by restructuring jobs so that they can be filled by available workers. We recommend that the Employment Service add 4,000 industrial engineers and psychologists (an average of two per office to the current staff of 35,000) to assist employers in solving their problems with shortages of skilled workers.

Many skilled women or women capable of readily learning skills are unable to work because of the lack of adequate child care faciltities. We recommend subsidizing day-care centers to enable these mothers to become skilled workers and to help ease the skill shortage.

REDUCING GEOGRAPHIC IMBALANCE

The large distances between job markets cause able workers and good jobs to go begging simultaneously. Self-adjustments of the market are inhibited. The travel hurdle poses particular problems to the poor and disadvantaged. We recommend a new mobility assistance program for regional labor shortages and the disadvantaged. About 200,000 workers and their households (about 10 percent of the migration flow) might be aided annually.

To implement this program, we recommend an employment service that will function nationally to help workers move and supply financial assistance to aid their moves.

REDUCING INSTITUTIONAL BARRIERS

Institutional barriers in the labor market based on discrimination, licensing, union membership, and so forth, inhibit the response of labor to production requirements and thereby increase unemployment and skill shortages, the latter in turn contributing to inflation. We recommend that a presidential commission focus on developing active and effective governmental policies for dissolving artificial barriers to employment. An across-the-board manpower program aimed at general upgrading and increasing the investment in human capital, and a corresponding commitment to maintaining a high level of employment nationally might well be essential political and economic ingredients for the success of policies to reduce institutional barriers.

THE CURRENT AND PROPOSED SCOPE OF OUR MANPOWER PROGRAMS

A summary of the program recommendations, together with their social cost, their expected impact upon the level and rate of unemployment, and the consequent increase in national income attainable is shown in Table 1. The proposed expenditures are large because they are intended to have a macro impact on the economy programs which we would recommend continuing are shown in Table 2. Our recommendations imply a significant effort toward the filling of inflation-producing skill vacancies, while maintaining the current level of effort toward aiding the disadvantaged.

To give a sense of perspective, note on Table 2 that aside from unemployment compensation and public service employment only about $3.7 billion is currently spent to "lubricate" the employment process which produces $574 billion of wages and salaries, i.e., .57%.

RESEARCH, DESIGN, EXPERIMENTATION, EVALUATION, AND DEMONSTRATION

Knowledge to implement fully effective programs of the type we recommend is still inadequate. Hence we recommend a carefully designed, integrated and expanded program of basic and applied research, including large-scale field experimentation and evaluation. Behavioral research for computer-matching, training and motivation is especially important, as is the prediction of the macro impacts of various programs. Increased emphasis needs to be given to the practical problems of applying research findings quickly and effectively.

TABLE 1.—SUMMARY OF ESTIMATED INCREMENTAL ANNUAL SOCIAL COSTS AND BENEFITS

	Social cost (billions of dollars)	Percentage decrease in unemployment	Decrease in unemployment at 4.5 percent	Increase in GNP (billions of dollars)
Upgrading and expansion of the Employment Service	$2.4	10	0.5	$6.7
Vocational counseling in schools (benefit in lifetime earnings)	.5	15	.7	7.0
Youth work study and employment subsidy	1.0			
Identifying and training for skill shortages	5.5			
Industrial services aimed at skill shortages	.2	25	1.1	16.5
Child care	3.5			
Geographic mobility	.6	7	.3	4.5
Total	14.0	47	2.1	30.0

TABLE 2.—CURRENT FEDERAL MANPOWER PROGRAMS

[In millions]

Program	Fiscal 1972 estimate	Fiscal 1973 estimate
Manpower revenue sharing programs	$1,454	$1,477
Emergency employment assistance	653	1,088
Work incentive training	187	262
Veterans programs	254	320
Vocational rehabilitation	551	620
Employment service	374	405
Other	837	969
Total	4,310	5,141
Unemployment insurance	6,044	5,458

	1971
Wages and salaries	$574,000

Source: Special Analyses Budget of the U.S. Government, 1973.

IV. CONCLUSION

The intimate relation between domestic and international economic policies and programs was clearly recognized by the President's Williams' Commission. See, for example, a succinct summary paragraph on page 8 of its report:

"First of all, we must return to a condition of economic health, with much lower unemployment and greater price stability. This objective cannot be achieved by fiscal and monetary policies alone, although more could be done with those instruments. To avoid cost-push inflation, we will have to adopt other measures designed to moderate wage and price increases, to increase productivity, and to improve the structure and functioning of our labor market."

In the foregoing statement we have tried to estimate, as well as presently limited knowledge will permit, the kinds of manpower programs that would be needed to lower unemployment and reduce inflation, the scale that would be needed, and the results that would be obtained.

We have tried here to present you with an overview of the problems caused by imbalances, frictions, and sudden changes in the labor market and with our views on how to solve them. We recognize that these proposals go beyond the immediate mandate of this Committee. However, if we do not solve our domestic unemployment and inflation problem, our foreign trade and other foreign affairs problems will be even more difficult to solve.

By addressing the problems of workers displaced by international trade and investment, the Committee may make an important contribution toward the solution of the broader domestic problem. The experience gained in providing training, mobility, and other assistance to workers displaced due to the impact of international activities could provide insights for the establishment and operation of programs for domestically displaced workers as well.

The general conclusion that emerges from our study is that a substantial expansion and redirection of manpower programs is needed to contribute to the solution of both our domestic and our international economic problems. While we have been moving on both fronts since 1962, we certainly have a long way to go in the effectiveness of our programs, their scale and their targeting. What is badly needed is a new sense of urgency that is commensurate with the problems that we face as the result of structural deficiencies in the operation of our labor markets.

Mr. CULVER. Thank you very much, Dr. Holt.

Dr. Striner.

STATEMENT OF HERBERT E. STRINER, DEAN, COLLEGE OF CONTINUING EDUCATION, AMERICAN UNIVERSITY

Mr. STRINER. Mr. Chairman, members of the committee, I would like to thank you for inviting me to testify before this committee concerning my recent study of continuing education and employment programs in Denmark, West Germany, and France.

During the last several years, I have become especially concerned with the problems of the relationship between continuing education, training, and employment.

In 1969, when I was a member of the U.S. delegation to the NATO Conference on Manpower in Portugal, I first began to hear of programs in Europe which were attempting to develop continuing education and training programs suited to the needs of the changing technologies in Western Europe. In 1970 as a member of the U.S. delegation to the OECD Conference on Continuing Education in Copenhagen, Denmark, I first learned of efforts being taken in Denmark, West Germany, and France to develop a formal rational, educational training program to eliminate unemployment and underemployment in the face of technological changes and industrial developments in those countries.

The most exciting program which I heard of was the one in West Germany and, as a result of my visit in West Germany last year, there is no doubt in my mind that West Germany's Employment Promotion Act of 1969 is one of the most intelligent and progressive manpower programs to be found among the industrialized nations in the world.

In brief, in the words of one German official "This Promotion Act established the right of every German worker to take training and education for a new profession or to train for additional skills in their own profession and to be subsidized during the period of training."

When one looks at the manpower employment and training programs of the Federal Republic of Germany, one cannot help but sense the real tragedy of the so-called education and manpower programs of the United States.

The 1969 law of Germany is really, however, only an expansion of an earlier law passed in 1964 which took the position that the human resources in the German economy were the most valuable resources of all and if the German economy was to be competitive on a worldwide basis as well as having a low level of unemployment and a low level of inflation and government, business, and labor had to come together to develop a new continuing education program which provided for the constant upgrading of the skills of the labor market.

In reality, the German law reflects a philosophy which is found generally throughout Europe and is quite different from ours in this country in utilization of our manpower pool.

In brief, the western European philosophy is based upon the effort to stabilize and expand employment and to make it more productive. Here in the United States our philosophy is to try to provide remedies for unemployment.

In essence, we typically tend to think of locking the barn door after the horses are out while the Europeans tend to keep the horses in the barn and eliminate the problems before they develop.

Most Europeans think in terms of preventive medicine while we tend to think in terms of remedial medicine and hospitalization after the accident has taken place.

The nations which I visited last summer in the development of my conclusions and the report which has been published have come to understand that an expanding economy whose expansion depends heavily upon new products, new technologies, and new distributions of incomes which must also have a labor force constantly being refitted, retrained, and reeducated to meet the needs of that economy. To do less is to invite continuing unemployment, inflation, loss of markets, and a national sense of frustration, and to do less is what we in the United States have done to date.

To do more, we need only look to the example of the Danes, the West Germans, and the French.

After looking at what these nations have done to refit their workers for the industrial demands of the new society, one cannot help but reach two conclusions: First, that an advanced industrialized society must see the continuing education, training and retraining of its labor force as a national capital investment and, two, without that capital investment the United States cannot hope to maintain the basis for continuing what had been an impressive historical rate of economic growth up until the 1960's.

The Danes and the West Germans already have programs which start with the basic assumption that adults who go back into an educational and training program on a full-time basis not only serve their own personal economic needs but provide the basis for increasing productivity, curtailing inflation and increasing the rate of economic growth of the economy. And, of course, there are also the higher income tax yields flowing out of the higher incomes as a result of upgraded skill levels.

The French about a year ago enacted a new law to move in the same direction in which the Germans and the Danes have already gone. Most crucial, and this is most significant, the programs which I looked at in these countries, the position is taken that it is absolutely necessary to provide for incomes, stipends, so that adults who return into an education program can do so without stripping themselves of any life savings which they may have. Indeed, in most cases, in a great majority of the cases, the interviews which I conducted with people who were back in the programs in Denmark and Germany, it was evident that the overwhelming majority of the workers back in training could not have gone back into these programs if they had not had the income stipends.

On the average, a German worker who returns for full-time education and training receives an income stipend of approximately 75 percent of his former income whether he is employed or unemployed. In addition, there are also special allowances for travel to the job after training, short-term subsidies for temporary housing or for special equipment needs so that the individual is in a really good position to be placed in a job after having completed his education.

I must say that there is, of course, an upper limit in terms of the income stipend approximately in terms of our own incomes at about the $10,000 level so that if the individual had an income of approximately, let's say, $5,000 to $8,000 in our economy he would have an income stipend of approximately 95 percent. As his income approaches the $10,000 to $11,000 the income stipend percentage begins to drop.

I cannot overemphasize the importance of the economic stipend in providing for a realistic education and retraining program for adults.

Most individuals who wish to return into an educational or training program are not in a position to do so unless there is a source of income available for their own as well as their family's needs for housing, food, and other necessities of life. It does little to tell a 45-year-old worker who wishes to go into a training program, that a free education is available to him without also providing for some means of continuance of income.

I have suggested in my study that we move ahead and provide under new legislation the right of every worker over the age of 17 to pursue an education training program with all full-time educational costs up to $2,000 a year plus a personal income stipend, so that the individual worker can prepare or train for a specific skill.

Under this new permanent and education law, the stipends would approximate on the average three-fourths of the worker's immediately prior employment income relating also to the size of the family or number of dependents with, of course, a reasonable upper limit on the stipend. For those with no prior work experience, a stipend should be provided to cover basic living needs.

By the way, under our present law, unemployment benefit program only approximately 70 percent of the work force is covered and a large proportion of those who are uncovered or the younger workers who typically have not had a long enough attachment to the labor force to qualify so the individuals who have the least basis for remaining in a position of some hope are those who are hit most desperately by unemployment.

Of course, as Dr. Holt has indicated, unemployment is inequitable among the young, among the black, among the very old, and among the other minorities.

The new law should also specify that additional funds would be available for special things necessary for successful placement as the Germans, Danes, and French do, such as travel to the new job, subsidize for short periods to provide for housing and special equipment. The new legislation would establish a new national economic security fund which would fund both the new training programs as well as unemployment security benefits for those individuals who may be out of work for short periods of time and who do not desire it nor for whom it would be logical for them to acquire a new skill.

The new legislation would, in essence, federalize the unemployment insurance reserves now held by the individual States and totaling currently close to $10 billion.

I might add, parenthetically, that as of 2 years ago the unemployment insurance reserves were well over $12 billion so that even over a prolonged period of drawing down of reserves the reserves only have been drawn down approximately two and a half to three billion dollars.

I might say the annual inflow of unemployment insurance payments approximates three to three and a half billion dollars including a half billion dollars which were tacked on for interest accruing to the reserves which are held.

At the present time, for example, if we were to choose to place 1 million of our unemployment, about 20 percent of our unemployment, into a retraining program where the educational costs approximate $2,000 a year for each worker as well as an average income stipend of $6,000 for each worker, the total cost of this program would be $8 billion. This would still leave roughly one and a half to two billion dollars in insurance reserves to pay for the short-term unemployment needs of individuals for whom it would make no sense to bring into the long-term training effort.

I have proposed in my report that we move from the present unemployment insurance tax of about seven-tenths of 1 percent to 1.5 percent tax shared equally by the employer and the employee. Given the present distribution of income in the United States, if all workers and employers shared up to $9,000, by 1975 this tax would bring in approximately $9 billion a year. Thus, a continuing education and training program costing $6 to $8 billion for about 1 percent of the labor force would be possible immediately without using any of the unemployment or insurance and reserves if the suggested program were placed in operation in 1973.

Obviously, we could not move with that large a program in that short a period of time, but I would like to give you the order of magnitude of the sums we are talking about, and I think the realism of this sug-

gested program as well as the program suggested in the paper presented by Dr. Holt.

I may say, also, that I have not given the net cost because if we go to this program we would obviously be taking large numbers of individuals off welfare roles and cutting on expenditures for unemployment insurance and payments as well as taking people out of some of the current manpower programs which I believe are purely cosmetic and have no real impact on employability.

I have very specifically urged in my study that like the Germans and the Danes and the French the studies of education should be done in terms of individual students rather than on the basis of institutional grants. I think that when we look at the tremendous success we had with the GI bill a good part of that success was due to the fact that the individual training was based on his own personal individual needs and the information he was able to get where the skill needs were and where the good educational institutions were and he was able to perceive where he should go for his training needs.

The educational and training institutions at that time had to compete on the basis of providing good training and education as well as placement services, and I believe strongly in competition among educational institutions. Hence, I think that for the most part the funds should follow the student rather than go to the educational and training institutions themselves directly.

I also feel that there is considerable wisdom in the German and the French laws where they take the position that training or education can be done just as well for profit types of institutions as well as by nonprofit educational and training institutions. I believe that education is much too important to be left solely in the hands of the professional education, or we normally associate in our hands with the regular public schools or nonprofit types of education institutions both at the secondary and higher level of education.

I was most impressed with the number of companies which have first rate skill training in Germany and Denmark and have been participants in the major effort to retrain the labor force.

I have also suggested in my study that the national economic security grants should be made available for the establishment of special residential education training programs which could affect such groups, large groups such as the inmate populations of our correctional institutions.

I don't believe that in the near future we will see any major effort to deal with the training and employment needs of the inmates at correctional institutions unless it is made a part of this program which grants as a right to every worker the educational and training benefits I am proposing—education and training centers to be established in detention or correctional institutions funded under this program in such a way that inmates could begin their education and training in the institutions but be eligible to continue on after coming out into the society in order to retrain themselves with the skills which are needed in the economy.

Finally, and in conclusion, I suggested in my study that the implementation of this new program would call for a type of administrative organization which does not exist at present in any of the executive agencies. The organization would need a combination of backgrounds

in adult education, manpower services and economic development. For the first several years, I feel it most essential that the new program should be free of the shackles of prior agency commitments and personnel.

In addition, because of its cross agency responsibility, it should have the direct support of the Executive Office of the President. Thus, for the first several years of its existence, I have suggested that a special bureau of continuing training be established in the Office of Management and Budget to bring this new program to life. Following an operational experience of several years in which patterns of operation and precedence would be established the functions of this bureau could then be moved to a regular agency or to a newly created agency.

I have been most heartened by the enthusiastic response I have received by those who looked at the study and I understand that Senator Ribicoff just this morning introduced in the Senate new legislation which would take us somewhat in the direction of what I have been recommending. I have not had the opportunity to look at the proposed legislation, and I am sure that was Senator Ribicoff's long-standing concern for education and the problems of the unemployed.

I would like to go on for some time but perhaps we would all benefit if I stopped at this point and could go into the panel discussion you suggested, sir.[4]

A PILOT PROGRAM FOR A NATIONAL MANPOWER POLICY

Mr. CULVER. Thank you very much, Dean Striner.

I want to thank both of you gentlemen for excellent presentations this afternoon. I think the proposals and the ideas that you advanced are going to be extremely valuable in the subcommittee's consideration.

Dr. Holt, the main thrust of your study as I understand is that we should adopt a manpower assistance program across the board rather than a separate trade adjustment assistance program.

Now, as a practical matter, it will take several committees and require a lot of time plus major budgetary commitments to reach what I think we all agree is that very commendable goal.

Furthermore, you have articulated that the knowledge to implement fully effective manpower programs is still inadequate. You recommend a carefully designed, integrated and expanded program of basic and applied research, including large-scale field experimentation and evaluation in addition to the increased emphasis on the practical problems.

We on this committee and the Congress have the immediate problem of authorizing trade negotiations next year and the escalating protectionist challenge and atmosphere that you are very much familiar with to our whole policy in this area, especially and justifiably from labor because of job dislocations that are related to imports.

Could you comment on the desirability and feasibility of implementing a trade adjustment assistance program as a pilot project for providing the base to move in the longer range or pervasive approach and direction that you suggested?

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[4] See Herbert E. Striner, "Continuing Education as a National Capital Investment." The W. E. Upjohn Institute for Employment Research, Washington, D.C., 1972, on p. 571 of the appendix.

Mr. HOLT. I am glad you mentioned the pilot project interpretation because I would not want to oppose trade adjustment assistance. The point is that such a program is not enough. One of the real problems in this whole area is to get a sense of movement and a sense of urgency and we have to start somewhere.

From the purely political point of view, it is quite obvious that the threat of excessive protectionism at the present time does raise the question of what can we do right now. For this reason alone a major push would be in order for effective trade adjustment assistance through a full array of manpower programs.

The present manpower programs were initiated in 1962. However, as the poverty program developed and we began to have greater and greater appreciation of both the difficulty of that problem, it largely absorbed the forward thrust of our manpower program, and it used up most of the funds on what is without question the most difficult part of the whole manpower program. So the parts of the manpower program that would be most effective for skill shortages, for anti-inflation programs, for doing something about the problem vacancy as distinct from the problem worker—that area has been neglected.

Doing something about trade adjustment, as you have already heard in testimony, has been very seriously neglected up to just the last few years. So it may be that examining manpower programs, restoring their forward thrust and making a new start could very well come from the international side.

The extensive study by the Williams Commission puts quite a strong thrust in the manpower direction, but it doesn't give detailed consideration. The kind of program that would be effective for the international area is very similar to that which would be effective at higher skill levels for the inflation problem.

The fact that our foreign trade is only of the order of 5 percent of national production makes trade adjustment assistance a good front on which to start. One of the characteristics of programs which we would need is fast response. Sometimes you need to train one type of worker and 2 months later an entirely different type of worker is needed depending on the occupational demand mix. Building up the institutional capability that we would need to do an effective job in the international area would make an ideal pilot program which later could be expanded across the board. But I agree with Mr. Striner that we are talking about an entirely different order of magnitude of resources and imagination than is currently in the operating programs.

BUSINESS-LABOR-GOVERNMENT COOPERATION AND RESPONSIBILITIES

Mr. CULVER. Both you and Dean Striner have stressed that the success of a comprehensive continuing education program and manpower program depends on the active participation as well as cooperation of Government, business, and labor and management, which I think, as Dean Striner pointed out, has been the case in terms of some of the European nations which have successful programs. In public statements, as well as in the testimony before this committee, the AFL–CIO has all but dismissed the concept of adjustment assistance and has asked Congress to legislate protectionist programs rather than adequate adjustment assistance and manpower programs.

Now, how sanguine are you with regard to the needed requirement of cooperation by labor? What burden-sharing responsibilities do you feel labor should have, for example, in this area?

Either one of you or both of you.

Mr. STRINER. Well, I think you have, of course, very different positions which may be taken by different unions. I think labor very rarely speaks with one voice; just as I think management very rarely speaks with one voice.

I think that what you have to do is seek out the allies among the various and very different types of labor organizations and let the chips fall where they may.

I spoke with some of the management people in France and Germany who are as a matter of fact concerned with exports to a much greater degree than is normal for us as Dr. Holt has indicated. Since we only have about 5 percent export, and I think merchandise exports will probably be about half that amount, we are not really a great exporting country. Their position was that in order to be competitive for world markets, the sort of manpower policy I have suggested in major commitment for pretraining was an absolute necessity because they felt that they could not compete with such nations as the United States unless they were going to do it on a productivity basis.

So, coming back to the first question you asked regarding the relationship of this committee to the sort of program I think we are both recommending, there is something to be learned from the overwhelming body of evidence about what these other countries have chosen to do in manpower policy for the very purpose of putting themselves in a better competitive position.

Mr. CULVER. We had a very constructive statement from the United Steelworkers of America on the Trade Expansion Act, and specifically the difficulties with the trade adjustment assistance program which has been operating for the past 10 years. They cited several cases where they have not had very much cooperation from industry, and specifically in several cases where business has refused to cooperate in the adjustment process or has taken unilateral initiatives. Repeatedly, we see situations here where we try to make comparisons with our domestic economic situation and our form of economic organization and try to make some sort of meaningful comparison with the European and Japanese situation.

With regard to this whole problem of cooperation, participation and mutuality of confidence in terms of business, government, and labor, what are your views about cooperation by business in this area, and the general structural problem that we have in our own economy?

Mr. HOLT. I think it is quite easy to understand why some of the union groups would be quite negative. They look back at the past history of the trade adjustment assistance program that was virtually at dead center for about 7 years after it was passed. If they look at the general manpower programs they see many of them that initially were broadly oriented fairly quickly turned around and concentrated on a narrow group.

When we get to the inflation problem, they see us restricting aggregate demand and reducing total production by something of the order of $60 billion; and on the other hand they are repeatedly told that we

can't afford to meet all sorts of domestic needs. With this kind of a background, it is not surprising that unions would take a short range view in protecting their interests. We must recognize what has been done as distinct from the rhetoric—and assistance really has not been forthcoming.

Also unions recognize the limitations of our present manpower and assistance programs and know that we cannot turn these around overnight.

With regard to management's side it is relevant to examine the placement activities of the U.S. Employment Service. The Employment Service started off in the thirties when to find a vacancy was the problem, it could easily find a worker. The Employment Service was very strongly oriented toward the employer during that period.

With the increased antipoverty thrust during the sixties, the minority and disadvantaged groups found that the Employment Service was not oriented toward meeting their needs and the Employment Services made valiant efforts to try to swing over to be responsive to the worker's side. But now there is some evidence that the placement rate is falling off because the Employment Service is no longer adequately responsive to the employer's needs.

One of the suggestions which we have made is that the Employment Service be separated into two parts so that the staffs know who they are working for. One part would be specifically committed to serve the employer's needs and another part specifically committed to the worker's needs.

I think there are clearly problems of conflict in the labor market, but there are also many problems where the employer's and the workers' needs overlap. For example, there is a fairly strong parallel of interests in trying to arrange industrial "marriages" of a worker and his job. There is a strong complementary here that needs to be promoted and I think that we are just now beginning to get some comprehension of the role of the labor market is in inflation and unemployment and how terribly important it is for national economic health. We cannot just look to the aggregate demand measures of monetary and fiscal policy to solve our national economic problems. We have gone about as far as that approach will take us and we now have to face up to the tough job of improving the economy on the micro level.

I think once this problem comes into sharp focus, there is plenty for everybody to do on all levels by unions, managements, and Government. The real missing element is imagination and leadership.

Mr. CULVER. Mr. Striner?

Mr. STRINER. I would like to support what has just been said.

We have to understand that both unions and management have been badly burned by Government. Anyone who has followed the effort since the early 1960's to deal with the development of an active manpower policy has to recognize that Government has played a terrible "numbers" game with both labor and management.

Government as attempted to shift responsibilities it had initially claimed onto the shoulder of management. For example, when it was first suggested back in the late 1960's that there would be funds made available under MDTA for private concerns to use on-the-job training for basic adult education as well, most of us who had been involved

in the manpower field who talked with management were aware of the reluctance many of the management people felt about this. Many of the people, even with the largest firms, did not feel that they could undertake this massive job of retraining and upgrading of skills where basic adult education was also involved.

They felt that this was a job which had to be done in educational institutions, in training institutions. I think that the failure which later on some people in the Government blamed business for was a failure we could all, and many of us did, anticipate.

I think the point that Dr. Holt made regarding the trade adjustment assistance where, again, we had great hopes, great ideas, but very little was really done, has caused both labor and management to take the attitude now that they have to protect their own and they have to do it on the basis of what they can do themselves.

So I do think, and I am encouraged by the reactions we have gotten here, that we are about ready after a series of frustrating years to come up with some really meaningful, serious efforts to deal with the manpower and training program of this Nation.

I think that the tragedy that we now have of continuing high levels of unemployment, in spite of economic indicators "beginning to turn upwards," will push us more and more rapidly in beginning to do what we really have to do in terms of a serious effort in the manpower training field with levels of expenditures which are larger than anything we have considered.

What we are trying to make clear today is really the essence of an absolutely necessary national investment in manpower training and education.

Again, other countries have done it and the payoff is there.

We can look at the tradeoff and see how bad off we are doing relative to the countries which happen to be the competitors in the world markets.

Mr. CULVER. Dean Striner, in relation to your last point on page 1 of your report, I am interested where you say, and I quote, ". . . it is disheartening to compare the typical attitude of officials in the United States with the constructive and realistic attitude in other industrially advanced nations of the world that suitable training and education of adults will alleviate unemployment."

Would you give us some illustrations of this typical attitude of officials in the U.S. Federal and State Governments that you have encountered?

Mr. STRINER. Yes. I find that too often in talking with people who are in the agencies concerned directly with manpower that they have accepted the fact that because we still have high levels of unemployment and difficult problems of dealing with the placing and the training of unemployment that our programs have failed.

It was disheartening for me to meet people in Denmark and Germany and France who indicated that they were well aware of the fact that we had never really had any serious programs, we had demonstrations of what could be done in manpower training and education. The demonstrations proved that if we had the order of magnitude of funds necessary we could have dealt with the problem.

I have talked with a number of people in the Labor Department, and some of the people in HEW who, I think, are unnecessarily de-

fensive and have accepted the fact that nothing much can be done for the large group of unemployed and underemployed individuals, nothing can be done to excite the imagination of people in Congress or the executive branch to move ahead into the type of European programs they have heard about. There are too many people in these agencies who have turned themselves off and are quite content to exist within the confines of the programs, the budgets which they don't feel they can ever escape.

It may be that after you have been beaten down long enough by limited budgets which reflect timid, uncommitted or unimaginative leaders you begin to accept this sort of an attitude so that you can get by on a day-to-day basis. I find it disheartening because I saw that the officials in the European countries with whom I talked had an entirely different attitude and did not necessarily see either management or labor as the enemy but tried to sell these individuals and educate management and labor to the necessity of developing different approaches. They have been fairly successful.

By the way, I don't think there is any country where the schism, the gap between management and labor has been further apart than in France. Yet the French Government has been able to work with people in management and labor and bring them together in an imaginative manpower training and education program.

THE EUROPEAN EXPERIENCE

Mr. CULVER. Are you able to isolate any factors in the European social, political or economic structure which, in your judgment, has contributed to this relatively more constructive and realistic attitude that is currently lacking in the United States? I guess the next question would be what institutional and structural changes, if you can isolate those distinctions, may be necessary to move the United States on to a more constructive and effective pattern?

Mr. STRINER. Well, I have asked myself the same question and I have talked with people with whom I have looked for answers, and the answers differ depending on the individual you talked with. To begin with, in the history of Europe, European governments have been involved to a much greater degree in economic programs and manpower programs, health programs, than has been the case in the United States.

I was interested when I was speaking with someone in Germany to learn that early types of national health programs were developed in the late 1800's in Germany and Austria and they didn't regard that as some sort of creeping socialism. The concept of getting job information, vacancy information, is an old one. We happen to be the last major industrialized nation in the world that does not gather job vacancy data.

You can go through the usual arguments we cannot get such data, or how difficult it is to obtain job vacancy data, and so on, but nonetheless such countries as Germany, France, Denmark obtain such data.

European countries are far more involved in economic policies affecting trade because they depend on their foreign trade in terms of their economic well being and their rate of growth than we do. So they

do what is rational to compete with foreign countries. It is of much greater urgency to them, apparently.

I happen to think it is the same degree of urgency to us. I think that we are probably at the sort of point now in manpower policy development that we were in with regard to general economic policy in 1944 and 1945. Up until that point everything that had been done by Government during the depression, you will recall, had been done on an ad hoc basis, everything was temporary. It was only after having gone through 10 years of depression and the heavy involvement of the Government by the mid-1930's in the economy, the involvement of Government in war, lots of people working for civilian Government agencies and the sensing, finally, that if you work for the Government or had Government involved, it did not mean that the private enterprise system was going down the drain. This realization led to enactment of the Employment Act of 1946.

Now, I think we are at about the same stage with respect to manpower policy where it would take just a bit of leadership, and not quite as much as I think a lot of people think is necessary, for us to move to an overall active manpower policy.

Mr. CULVER. Mr. Whalen?

Mr. HOLT. Mr. Chairman, could I suggest another answer to that? I agree with everything that has been said, but I think there is another important point that needs to be stressed, that is the postwar reconstruction.

After the war, there was a tremendous economic stimulus in all of the European countries and for a period of something like 20 years a 2-percent unemployment rate has been a high unemployment rate for them. Their problem has been how to find enough workers in order to fill the many jobs.

This is an ideal circumstance in which to carry out a manpower program because the problem then is how to get the workers developed to handle the jobs. There was plenty of economic opportunity.

I think that one of the things that we have increasingly to appreciate is the interaction between our microeconomic problems and our macroeconomic problems. If we look for solutions to inflation and unemployment in terms entirely of monetary and fiscal policy, we cannot succeed. If we look for a solution to our manpower, unemployment, and poverty problems entirely in terms of programs aimed toward the disadvantaged, they cannot succeed. There simply are not enough jobs.

However, if we use manpower programs in such a way that we decrease inflationary pressure which allows us to increase aggregate demand and create more jobs, then these two approaches working together are more effective than either one can be alone. It is significant and symbolic that the Secretary of Labor is not really included in the Councils of Government in the design of the national economic policy. He presents statistics on what unemployment rates result from the actions taken by the Treasury, but he doesn't really have an active role in the decisions on what level of aggregate demand the labor force needs. For example, to cite a concrete case, the JOBS program, a private on-the-job training program which has been subsidized by the Department of Labor to hire disadvantaged workers, had lots of money left in 1971 because employers were reducing production and were having to let workers go. Under these circumstances, no

matter how willing the Department of Labor is to subsidize employers to make jobs for disadvantaged workers, the program will fail.

Mr. CULVER. Thank you. Mr. Whalen.

THE NEED FOR MICROECONOMIC PROGRAMS

Mr. WHALEN. What you are saying, Dr. Holt, is that in effect you are reverting to the concerns of the early 1960's. At that time doubts were expressed that fiscal policy and monetary policy can go only so far in reducing unemployment. They have limited effect in combating structural problems, thus creating the need for specific programs arrived at these structural needs.

Mr. HOLT. That is right, except, I think, the debate at the end of the fifties, concerned an either/or explanation of unemployment. We are now increasingly understanding the labor market and the inflation-unemployment processes. We can see how both demand and structure fit in. The aggregate-demand people won the earlier debate because theirs turned out empirically to be the correct explanation of the unemployment problem at that time. Now I think we can see that both dimensions are relevant to our current problems.

THE DIFFERENCES IN FOREIGN LABOR MARKETS

Mr. WHALEN. I am not as familiar, certainly, with foreign labor markets as you gentlemen are. Are the disparities in Japan and Germany as great as in our country? You talked about the structural problems. You indicated we have a very serious problem in terms of our minorities, the young, and so forth. You have also mentioned that the programs that are enjoying success abroad involve retraining which suggests that there was at some earlier point training for those who were on these programs.

Are the disparities in the composition in foreign labor markets as great as they are here?

Mr. STRINER. You bring up an interesting point because when I was talking with the director of a training program in southern Germany and I began talking about hard-core unemployed, the translator had a difficult time translating hard core. I said, "You know, they cannot read and write." They both looked at me sort of dumbfounded and they said, "They don't read and write?" I said, "That is right." They could not understand this because they said, "Well, we don't have quite that problem, most of our people read and write and can be trained."

However, interestingly, about 3 percent of the German labor force at that time at any rate were individuals coming from countries where often they did not read or write—Turkish, Greek, Spanish—and these were low-skilled people. The Germans, however, built into their programs literacy training because their attitude was, look, we would rather not quibble about should they read or write; what we are concerned with is productivity and employment. I think the sooner we here in the United States get to that point and stop adopting a punitive attitude, the sooner we will deal more effectively with the training and employment of the hard core. The cost to us as a Nation of not including enough literacy training adult basic education in our man-

power program is terribly high in terms of our wasted resources and the inflationary effect it has. We create a false scarcity of manpower when we need trained manpower very badly.

Mr. WHALEN. What the implication is, of course, is the terrible discrimination that we have encountered in this country for the last 150 years which denies a job to a worker even if he had a skill and thereby denies any incentive to obtain that skill.

Hopefully, we are overcoming this. We have corrective legislation. It just occurred to me that we may have more serious problems in the minority segment of our labor force than maybe they would in Germany and Japan.

I think, also, there is the related question of our tremendous technological advances, which I suppose have been substantially greater than in other countries. Does this leave us with comparatively fewer unskilled jobs to be filled than in Germany which you indicate are being filled by those of foreign birth who can't read or write, and have few technical skills? Does this give a little different outlook in terms of our unemployment figures?

Mr. HOLT. The question as to whether automation is going to give us insoluble unemployment problems has been a concern for over a century and somehow it never seems really to happen. One of the remarkable things is how flexible the labor market is in making long run adjustments. However, we have been talking about the problems and difficulties in the short run, and I think the implication of your question is certainly correct in pointing up the importance of our low population density, and our cultural and racial diversity.

We have tougher problems than many European countries and we are doing less about them.

One of the points that needs to be stressed is when we talk about really being imaginative and doing new things in the manpower area, we are not just talking about training programs, but we have to change the institutions with regard to racial and sexual discrimination.

We had a visitor recently who was in charge of manpower research in France and I was asking him, "Do you have an unemployment differential between men and women?" His reply was that many more French women are working, and they are getting the same problem we have.

One of the really striking differences in Europe is that their unemployment rate for young people is no higher than it is for adults. They have, of course, an entirely different kind of apprenticeship system. They have a channel by which young people get into the job stream, whereas we have an awkward break between school and work. There are lots of problems where Europeans are way ahead of us, but in some areas we have unique problems that they don't suffer.

DATA NEEDS

Mr. WHALEN. It was charged in our hearings 2 weeks ago that there has been a complete absence of information and statistics on the part of the Federal Government, particularly with respect to the effects of our international trade and multinational corporations on unemployment.

Both of you gentlemen have published significant studies. I wondered in conducting those studies, did you encounter the same difficulty with respect to Federal statistics. I noticed in your prefatory comments that you pointed out that your study was supported by the Department of Labor.

Mr. HOLT. Yes. We have concentrated our work primarily on the domestic scene, partly because the international trade area is relatively small and partly because we have just had our hands full working with American data which often is inadequate.

Mr. WHALEN. We probably didn't get into this area as much as you did.

Mr. STRINER. I have been there and in recent years I have gone back. I have only been a dean two and a half years and prior to that I was the director of programs for the W. E. Upjohn Institute for Employment Research, which is an operating foundation specializing in the manpower and education areas. The problem of disaggregated data in the manpower field is still a terrible one.

Getting meaningful data for socioeconomic groups you want to deal with, the special problems groups, is still very painful in the terms of adequacy of data.

In recent years I have been dismayed by the withdrawal in the Department of Labor and the Bureau of Labor Statistics of the sorts of public discussions concerning reports on unemployment rates. I think it is unfortunate that we have not had more frank and open discussions of the adequacy or inadequacy of employment data that we had up until a few years ago.

DEFICIENCIES IN EXISTING MANPOWER PROGRAMS

Mr. WHALEN. I certainly appreciate, Dr. Striner, your suggestions for improved manpower training programs. You refer to the present program or programs as cosmetic and you have alluded to this in your previous answers. I wonder, could you be a little more specific just what the failings are in the present program?

Mr. STRINER. Well, I think that most of the current manpower programs under the MDTA deal with summer employment for young people. They do not put individuals into serious educational and training efforts. And without a stipend they are of very little meaning to most adults, male or female, who have any responsibilities. Largely, the programs which we have at the present time do not get to the basic problem of good skill training or good basic education which in many instances is needed.

When you look at Manpower Development Training Act expenditures over the last 5 years you see that longer-term institutional training, in-depth training, expenditures have been cut while short-term summer training, the least effective type, expenditures have tended to increase. Thus you spend small sums of money on larger numbers of individuals with much less impact in terms of their long-term employability. I think this is strictly politically cosmetic, and it has almost no effect. If anything, it has a frustrating effect on the individuals who believe they are being trained for jobs, but they are really not being given skills. And they don't end up getting jobs.

Mr. WHALEN. I agree. It seems to me it is sort of grantsmanship. We have a proliferation of programs largely uncoordinated. In my own home community, for example, I could not tell you at this moment how many manpower training programs we have. There certainly are some questions about the overall benefits of these programs.

Mr. STRINER. You see, Mr. Whalen, I think one of the problems we are attempting to deal with today is envisioning an active overall manpower program in all of its facets. Unless you go for what I call a simultaneous equation solution you just can't get results. You remember way back when you were learning algebra when you had simultaneous equations unless everything was taken into account simultaneously you could not get a solution. When you look at something like the work incentive program, the WIN program you can see a good example of what I'm getting at. I remember when I was on the Middle Atlantic Manpower Advisory Commission and the WIN program was first being started it sounded like a great idea. The object was to get mothers who were on welfare into training programs so that they could become employable. I raised a question. The question was to what degree were we increasing expenditures for day-care centers, because these mothers have young children and they are not going to be able to enter training programs unless there is a suitable day-care program for these youngsters. If we place mothers in training programs but leave the youngsters at home without care then we are producing the next generation of juvenile delinquents. The question was never taken seriously and we never really instituted a major effort on day-care centers. But, you see, the day-care center was an essential part of this manpower program. The WIN program has not been successful and the critics, both in government and outside of government are quick to say, "You see, that is what happens, we cannot do anything for these people, they are just not taking advantage of the programs." But, in all truth, the mothers chose not to leave their children, unattended, at home.

Mr. WHALEN. Thank you, Mr. Chairman.

Mr. CULVER. Thank you, Mr. Whalen. Mr. Wolff.

THE MARKETING SYSTEM

Mr. WOLFF. Thank you, Mr. Chairman.

I find that in addressing ourselves to the problem of productivity basically there is very little that is being considered in the way of marketability. I look at the other end of the pipeline and I agree that we have to have great manpower training programs. One of the goals at the end of those manpower training programs is to provide a trained person, but, for what? Are we doing the same amount that we should be doing or are we doing what we should be doing to provide the market for that particular job or the total job program?

I come out of the marketing field so I look at it perhaps from a different perspective than you might.

One of the ideas that I have set forth on numerous occasions is that we have a great commodity that is not being given sufficient consideration—the sophistication we have achieved in our distribution system. If we could export that type of distribution system through train-

ing, then perhaps we would be able to fulfill the needs of those marketplaces by training people to produce for that marketplace.

On the question of manpower training I am wondering whether in this other part of the equation which you spoke of before whether adequate consideration is really being given in addition to productivity to marketability?

Mr. HOLT. If you look at the inflation problem where you have a very high ratio of unfilled job vacancies to unemployed workers in some particular occupation or region, the problem is, how do you get a worker to fill the vacancy? It is a market problem. In many cases, you will be able to train people for those skill shortages. But in some cases the training program will be sufficiently difficult that you really need to work on the job itself, that is, restructure the job in order to adapt it to the work force that is available. You need to work on both ends of the problem, and seek adjustments on both sides.

Mr. WOLFF. I do feel there is a problem of filling those jobs and that the needs are existent today, but in the question of the large-scale maladjustment that has taken place in many industries so far as the working people are concerned, I feel that we have got to start to create new markets so that we can be ahead of the task of just filling those that exist today, especially when it comes to the international trade people. For us to just set up restrictive trade barriers here so that the foreign nations cannot compete with us on a local basis, is totally unrealistic.

Mr. STRINER. I think by marketability you are referring to the new products.

Mr. WOLFF. New products or new markets who make use of the labor force of this Nation plagued by rising unemployment.

Mr. STRINER. I have run into a number of situations, though, where management people have indicated that they have new products and new markets in mind, but they have been reluctant to push too hard on them because of the limitations imposed by the lack of availability of skilled individuals. When I was at Upjohn, I recall a study which we did in Erie, Pa. There was a manufacturer of various types of plastic products, and in chatting with us he indicated that he had one whole new line that he was thinking of going into, very exciting for him, but the problem was he didn't have the type of skilled individuals necessary to do the work. I suggested he might want to train people for the job, but for one reason or another he was a bit reluctant to do it.

Part of our problem, of course, when we get into the export field is that management is not always as enterprising as it should be.

Back in 1955, and this goes back a bit, I was at the National Planning Association doing a study on the impact of foreign trade on local communities. There was an input-output study and we did a study of the glove industry in Fulton County, N.Y. The glove people were complaining they were being put out of business by the English and Italian imports.

But after analyzing the industry, we found, as a matter of fact, the reason they were not competitive with the English imported dress leather glove and some of the Italian gloves was that the English and Italians were doing a much more effective marketing job. For example, we found that the importers were not forcing local stores to carry

large stocks, large inventories by color, by size, by style. The importers were taking the position with the local store that "we will ship you by air what you need, don't worry about holding large stocks." The U.S. glove manufacturers refused to work that way and this put them at a considerable competitive disadvantage.

Mr. WOLFF. I feel very strongly that we can help not only industry in this country but labor in this country as well by attempting to export distribution systems that could exploit our output. The system we have developed, wholesaling, warehousing, and other channels of distribution, could make for a much wider sale of our products produced here. This in turn would provide more jobs for the industry here than by setting up artificial barriers.

Thank you, Mr. Chairman.

Mr. CULVER. Dean Striner and Dr. Holt, I have a number of questions here that we really have not had an opportunity to explore, and I think they are very important, and I think your opinions would be very valuable to the committee. They are essentially operational and structural questions, and I think that this information would be very helpful for the record.

As you know from the bells that have just sounded, this has been a particularly busy afternoon on the floor.

What I would like to do, with your cooperation, would be to provide you with these questions, if I might, about seven or eight of them, and maybe both of you individually would be good enough to respond to them.

We will make them, if there is no objection, part of the record at this point and thereby, perhaps, save you some time and in addition, give you a little more opportunity to reflect on them, and you can respond in any way you like.

If that is agreeable to you both, I wish to thank you once again very much.

The studies that you have done and the reports that you have made have been particularly useful in our committee consideration of this subject, and I think it has given us some new insights and new directions that, I hope, will prove to be productive and useful in the future as we deal with this; not only within the narrow subject relatively of trade adjustment assistance where so much has to be done but really more fundamental in importance, the general manpower program, where, I think, you have gone a long way to pointing up the shortfall that we have in this area and how critically necessary it is to close it in the national interest.

Thank you very much.

Mr. HOLT. Thank you.

Mr. STRINER. Thank you.

(The questions, together with responses, follow:)

WRITTEN RESPONSES TO ADDITIONAL QUESTIONS SUBMITTED BY CHAIRMAN CULVER TO DR. CHARLES C. HOLT

THE ADMINISTRATION OF MANPOWER PROGRAMS

Question. Dr. Holt, in your paper, you recommend that the federal government take the lead in organizing, funding, and coordinating the nation's public private employment system. In your study, Dean Striner, you point out that the imple-

mentation of your recommended continuing education and training act and the utilization of a National Economic Security Fund (NESF) calls for a type of administrative organization which does not exist at present in any of the executive agencies of the federal government.

(a) First, could you comment on the effectiveness of the administration of present manpower programs; and

(b) Second, could you both elaborate on your thoughts for the creation of an effective operational and administrative system to implement manpower programs in the future?

Answer. Before one can answer such a broad question about administrative structure, it is necessary to specify what goals are to be pursued by the governmental agencies involved. Work is the most important single input to the process which produces goods and services, and the earnings that derive from work is the most important single source of family income. Although the individual has a strong economic motivation to develop his human resources and utilize them effectively, his success in doing so is a matter of social as well as private concern. Hence, I think that it is an important responsibility of government to ensure that labor market institutions are socially efficient and that whatever aid is needed to enable individuals to reach their full potential is forthcoming.

Now, if we use these objectives to judge our present administrative structure for manpower programs, you must conclude that it is seriously deficient. It is oriented primarily toward the narrower objective of aiding the disadvantaged—I hasten to add that I approve of that but it is not enough. We have never implemented programs to attain the more comprehensive objectives of minimizing inflation and unemployment, and of being responsive to the work-related needs of all workers.

One of the most serious weaknesss of the governmental bureaucracy in this area is the lack, so far, of leadership in formulating what needs to be done and how we could go about doing it. Because the problems to be overcome are extremely difficult a "can do" attitude and drive is needed. "How can we do the job?" and "How can we corral the necessary resources?" This attitude must precede the capability, otherwise the needed changes won't get made. Money from Congress would help but not suffice.

So far as I know, no comprehensive study has yet been made of the administrative structure that would be needed to be effective in achieving the much more ambitious goals that we have been urging.

The prime efforts of the Nixon Administration in the manpower area have been to try to pass legislation that would decentralize and decategorize existing manpower programs with a stress on revenue sharing. While such changes have much to recommend them, they derive largely from the judgment that Washington can't do the job, rather than from any firm evidence that the states and local governments are any better prepared to do it. A major effort is now being made to prepare for the manpower aspects of the Family Assistance legislation that is under consideration.

In Chapter IX of our Manpower Programs to Reduce Inflation and Unemployment: Manpower Lyrics for Marco Music, we have tried to outline the process of research, design, experimentation and demonstration that we think is essential in developing fully effective programs. Although some would argue that the agencies are already engaged in this process, there is a great deal of room for improvement. A start has been made. We need an administrative structure that effectively organizes government's leadership role on federal, state, and local levels, and its contribution of resources, but we also need the full and effective participation of employers, unions, individual workers, community organizations, and public and private educational institutions and placement agencies. Earlier joint coordination and planning efforts often have involved empty organizational forms without any real decision-making substance.

THE JOB INFORMATION AND PLACEMENT SYSTEM

Question. Labor has quite properly in my judgment said that "what we want are jobs, not relief checks." This goes, as I see it, to the failure of the present trade adjustment assistance program and perhaps even other existing manpower training programs, which were supposed to have provided retraining opportunities for new jobs and actual job placement, but which in the case of trade adjustment assistance has done practically nothing in this regard. A recent Wall Street

Journal article pointed out that while unemployment is high, many good jobs are awaiting takers. The article went on to say that more and more labor experts are putting the blame for this phenomenon on the nation's crude and inefficient system of informing the unemployed of suitable job openings.

(a) Dr. Holt and Dean Striner, could you comment on the status and effectiveness of the job information and placement system in the U.S.?

(b) Dr. Holt and Dean Striner, could you elaborate on your own recommendations for matching workers, jobs, and manpower services—for counseling and placement?

Answer. There seems to be general agreement that the fifty-state Employment Services, as now structured, do not constitute an effective placement system especially in their interstate coordination. Some manpower "authorities" are inclined to write off the Employment Service as hopeless, but my view is that the function is so critically important that we have little choice but to work to improve the public employment system making whatever changes prove to be effective.

The Department of Labor has underway an extensive program to introduce computerized Job Banks into the Employment Service offices of the large cities and plans are underway to extend those systems to the state level.

However, a great deal of behavioral research is needed to determine what information to put into the computer files and how best to search for matches. The tendency has been to focus on computer problems rather than on manpower problems. There is even a danger that employer needs will be less well served under the new Job Bank system than formerly.

Our research has led us to the conclusion that to meet our national economic objectives, the Employment Service should be expanded, its professional level raised, and its range and quality of services increased, both to workers and employers. To help employers restructure their jobs to fit the available labor supply for high productivity and job satisfaction, and low turnover, we urge the addition to the Employment Service staffs of industrial psychologists and engineers backed up by an active program of behavioral research and experimentation.

DATA NEEDS AND AN EARLY WARNING SYSTEM

Question. A key element in the job placement system is the data and analysis necessary to anticipate or, at least quickly identify job dislocations, occupations that are in short supply, the potential for creating new jobs and professions, and where the shortage areas are located. As Dean Striner points out in his study, nothing is more illustrative of our inadequate concept of dealing with the problem of matching workers, jobs and manpower services, and reducing critical skill vacancies than the apparent glut of teachers at a time when we have increasing numbers of young children whose reading levels indicate a serious gap in our efforts to deal with illiteracy.

(a) Could you discuss some of the practical problems associated with developing an early warning system, particularly the timely and accurate collection of objective data, and its proper interpretation?

(b) How can this data be applied to the development and implementation of training programs closely tied to the anticipated need for skilled workers?

Answer. The Bureau of Labor Statistics now has a program for collecting vacancy data on a national sample basis. Ultimately vacancy data with substantial regional and occupational detail would be needed together with corresponding data on unemployment. We are only beginning to develop the needed data capability.

The analysis and projection of such variables taking into account changes in the industrial composition of sales could and should be computerized centrally and put on a routine basis to facilitate decentralized planning. Then detailed institutional information could be added at the local level.

However, to be effective, planning and training institutions would need to be developed that were tremendously flexible and quickly responsive to the continually changing patterns of training needs. Employers and public and private training schools all would need to coordinate their efforts at the community and state levels. Thus, data, analysis, and action all must be tied together.

LABOR MOBILITY

Question. Both of your programs have as an underlying premise the theory of labor mobility in the United States. In other words, wherever there are surplus workers in one geographical area, the workers in those areas will be able to move to other areas where there are shortages of individuals with their skills. As was pointed out in the Wall Street Journal article I previously mentioned, and by several earlier witnesses, "what hasn't been expected is the reluctance of American blue collar workers—long touted as the most highly mobile labor force anywhere—to budge from familiar surroundings when finding employment demands it." Besides the fact that the financial loss can be great, the breaking of ethnic or family roots often result in a considerable psychological cost.

(a) What steps can be taken to create mobility by assisting workers to overcome the cost factors?

(b) What if anything does behavioral psychology tell us about measures that might be taken to overcome the intangible factors making for reluctance to change employment locations?

(c) When it comes to the older worker, most of the suggestions we have seen would treat him as in effect unretrainable, and concentrate instead on such things as accelerating his pension rights and Social Security entitlement and the like. Is that our only option? It seems to me that with longer life has come a demand for greater dignity and respect for our older citizens, who want to continue to lead productive lives. Can we do something to accomodate that desire, perhaps at lesser cost than early retirement?

Answer. The first thing to stress in the policies governing mobility assistance is that the program is intended to aid workers who want to move, not to manipulate or coerce people into moving. Thus the objective is to attain successful moves for those who have decided that such a drastic adjustment is in their own interests.

A wide range of supports can be offered, but the first and essential one is good information on employment opportunities outside their own communities as well as inside.

Aid should be given in proportion to financial need for: long distance telephone, travel assistance to search for jobs, to try jobs and to move families, assistance in locating new housing and partially absorbing capital losses from selling the vacated housing, temporary aid with living expenses, resettlement costs, and help in securing medical and other services in the new community.

I think that behavioral research would indiciate that moves are more likely to be successful when they are made in groups so that the individual family is supported in making its adjustments by friends and relatives who are facing the same problems or previously have done so. Having a friend can make a big difference in getting to feel at home in a new community. Ideally, a mobility program would take into account these important intangibles in counseling on moves and adjustments to them. Relevant help would cover some of the costs and trouble of finding friends, etc., getting information on schools, neighborhoods, etc.

For those who don't want to move, or at least not immediately, some form of income support should be provided but it should be limited in level and duration depending on circumstances, such as age. Such programs should be designed to avoid, in so far as possible, adversely affecting the individual's incentive to work. Negative income tax programs should enable workers to accept lower paying jobs, if that is necessary to secure employment. Subsidizing jobs for aged, disadvantaged, or very young workers may be far preferable to their chronic unemployment. Such subsidies often can be combined to get socially useful work done through public service employment. An interesting evaluation of our recent experience under the new legislation is found in The Emergency Employment Act, An Interim Assessment, Subcommittee on Employment, Manpower and Poverty of the Committee on Labor and Public Welfare, U.S. Senate, May 1972.

EDUCATIONAL FACILITIES

Question. Are U.S. educational institutions operationally ready to absorb the influx of workers contemplated in your programs? Do we have adequate vocational programs? Do we have adequate community facilities and programs to operate continuing education and retraining programs?

Answer. I'm afraid that the answer to all of your questions is no. Not only have we seriously underdeveloped the vocational dimension of our education for

youth, but we have neglected the educational and training institutions for the continuing, lifetime development of our adult workers. I couldn't agree more with the conclusions that Herbert Striner has reached in his study on continuing education.

The point is frequently made that our industrial jobs are so simple that they are easily learned in a few days of on-the-job training. That is certainly true up to a point, but increasingly we are coming to understand that in our quest for efficiency we have broken down production functions into such simple elements that the jobs are so fragmented that they offer little satisfaction to the worker. This results in high turnover and frequent unemployment.

For advancement through a sequence of jobs and even more as jobs are restructured to be more challenging and satisfying, adult workers need to complement on-the-job training with continuing opportunities for both vocational and nonvocational education. Dramatic evidence of these needs was reported by Bruce Alexander of the United Steel Workers of America and by Alan Entine of Stony Brook State University of New York at an Upjohn Institute Conference on New Directions in the World of Work (Conference Report by Charlton R. Price, March 1972, pp. 26 and 27). The Steel Workers found that "for thousands, low education levels were blocking anything beyond minimal promotion opportunities." Schools were set up in the plants which resulted not only in promotions but also in important benefits for home life and the community at large. The Ford Foundation supported a two-year pilot program at Columbia University which enabled people seeking to enter new careers to get "needed specialized training at the university, as well as counseling and placement services." Interest was tremendous and inquiries were still coming in two years after the program had to be discontinued. The recent tremendous growth of private training schools fully financed by their enrollees is further evidence of the needs in this area.

Many large companies support the educational development of their employees both by formal programs and by tuition support. Smaller companies do much less in this area. Our public vocational education, in spite of legislation efforts by Congress, continues to be largely marked by rigid and unresponsive institutions. But over all, education is viewed as largely for the young. Our public and private institutions are simply inadequate. We have too long neglected the educational and vocational development of our adult population.

Fortunately, such needs are increasingly recognized. Sidney Marland, Jr., U.S. Commissioner of Education (See "Career Education—A New Priority," in Science, May 12, 1972) has referred to a "Presidential priority" and the "first priority" of the U.S. Office of Education. Unfortunately, responsibility is badly split between the Department of Health, Education, and Welfare, and the Department of Labor.

A NATIONAL INDUSTRIAL POLICY

Question. We have addressed ourselves to the desirability and problems of establishing a national manpower program. However, can we isolate manpower development policy from a national industrial development policy? We don't really have such a policy in this country now, in comparison with some of the other developed countries, do we? What steps should we in the Congress be taking to move in that direction? I am talking really about investment mobility along with manpower mobility.

Answer. On the whole, I think you are right that we don't have a well-developed regional economic development policy, but we do have some scattered programs. We have several regional commissions, EDA, HUD's Model Cities and New Communities, DOD's policy of procurement in high unemployment regions, and of course, the state governments offer various aids and subsidies to attract industry. None of these go very far in rationally channeling the generation of jobs in particular regions through economic demand or investment. There are, unfortunately, very difficult political problems in passing programs that favor some constituencies over others. As a result, we have, in the past and are likely to continue, to let the regional impacts of demand fall where they may, and make what adjustments prove to be necessary on the supply side. To some extent prices feed back the costs of these local adjustments and thereby influence the regional allocation of demand, but the importance of spillover effects, that are likely to be ignored by individual firm decisions prevents our having much confidence in even roughly approaching an optimum regional allocation of jobs and industry.

President Nixon briefly discussed a national growth policy that presumably would have both regional and population dimensions, but no legislative proposals

have surfaced so far as I am aware. However, the underlying issues do come in for Congressional debate on particular projects such as the support of the SST.

Not only do we not have an effective policy in this area—the legislation establishing the Economic Development Administration in the Department of Commerce probably comes the closest, but regional data is seriously deficient and even the basic economic theory is largely undeveloped. Most European countries are ahead of us in crystalizing these problems and struggling with the formation of relevant institutions and policies.

Your question spotlights a very important, complex, and neglected policy area. I do not pretend to have an answer. You might want to nudge EDA and the National Science Foundation to pursue research in this field.

FEDERALIZATION OF THE ADJUSTMENT ASSISTANCE DELIVERY SYSTEM

Question. The base of Dean Striner's program is premised on the federalization of all state unemployment insurance funds and their conversion into a National Economic Security Fund (NESF). The NESF would fund both the new education training program and unemployment security benefits.

As I understand, employment security was federalized during World War II, and since then the entire cost has been borne by the Federal government. So federalization may not be quite so radical a suggestion as it first seems. Would it be feasible and desirable in your judgment as a first step to federalize the delivery of trade adjustment assistance, bearing in mind that this might require the initial creation and funding of a wholly separate administrative structure?

Answer. The present thrust toward the decentralization of manpower programs is promising especially as it relates to training, education, and public service employment. However, the placement and mobility programs would be more effective if centrally administered. Also, we probably could move faster in raising the quality level of the Employment Service by centralizing it.

There is no contradiction in centralizing some labor market functions and decentralizing others. Ultimately we want a national system that is functionally integrated while providing a great deal of local autonomy.

THE INTERRELATIONSHIP OF UNEMPLOYMENT, INFLATION AND MANPOWER PROGRAMS

Question. Both of you conclude there is a clear need for governemntal intervention in the labor market on the micro level with new kinds of manpower policies in order to control unemployment and inflation.

Could you spell out for the Committee in A–B–C fashion the interrelationship between unemployment and the upward inflationary spiral and how effective manpower programs could reduce inflation, and increase our productivity and international efficiency?

Answer. Manpower policy and programs can and should reduce unemployment and inflation in the following ways: Better information on vacancies and workers will enable them to be matched faster, thereby reducing the duration of unemployment. By restructuring jobs and retraining workers higher productivity and job satisfaction can be obtained, thereby increasing economic output and lengthening job durations. This reduction of the duration and frequency of unemployment would directly reduce the unemployment rate. Lowering the regional, occupational, and discriminatory barriers that separate workers and jobs, will further reduce unemployment by avoiding inefficient concentrations of unemployed workers, and will lessen inflationary pressures on money wages by avoiding excessive concentrations of and durations of job vacancies.

This approach to lowering unemloyment will allow us to increase aggregate demand without raising inflationary pressures. Such a quickly responding and well balanced labor market with adequate investment in the educational and vocational development of workers would contribute to output, upgrading, income security, and reduction of poverty. In such an environment the fear and burden of unemployment would be reduced and both workers and employers could adjust to changes in domestic and foreign demand with minimum pain and disruption.

However, this route offers no panacea. It will be expensive and time consuming, but it is sound and there is really no alternative. The problems of inflation and unemployment are likely to be with us until we face up to the need to make basic structural improvements in our manpower institutions. The question is when will we face up to the fact that monetary and fiscal policy and even wage and price controls are not fully adequate instruments to solve these problems?

IDENTIFICATION OF JOB MARKETS

Question. Some people suggest that we have a problem now in getting plumbers and sanitation workers and assembly-line workers, so that if we upgrade everybody's skills we'll have nobody to perform these tasks. Actually as I understand it we have large numbers of unskilled people in the ranks of the unemployed at present, and a very large percentage of our manpower money over the past six years or so has been going into training these so-called hard-core unemployed. Now these people still have difficulty breaking into the job market, because the workers whose jobs they would take over do not themselves have adequate upgrading opportunities to make room for the hard core. Therefore what we have been doing is creating job friction rather than job mobility. Would you comment on that?

Answer. Yes. I don't think that we have been "creating" friction. There is plenty without doing that. However, our present manpower programs upgrade the disadvantaged to a higher level where they tend to compete for jobs with those workers just ahead of them. There the disadvantaged encounter a ceiling effect which restrains their further advancement.

If continuing adult education and training were a right enjoyed by all workers, throughout their working lives, then upgrading could take place at all levels and each worker would be limited only by his own energy and ability. Such broad-based manpower programs should be much more effective than our present ones.

To the extent that we have jobs that yield low pay and low satisfaction, the solution is to upgrade the dignity, content and pay of the jobs. Jobs for "sanitation workers" have waiting lists in some cities.

COST ESTIMATES

Question. Dr. Holt, you have estimated the social cost of your recommended program at approximately $14 billion. Dean Striner, the estimate for your recommended program is about $6 billion.

(a) Could you explain the way the costs have been computed, and the reasons for the difference?

(b) How would the programs be financed?

(c) Can you estimate the benefits which will accrue to our economy?

(d) Have either of you done any research as to the cost to the economy of expanded and extensive manpower programs as compared to the cost to the economy of quotas and other trade restrictions, if that is our alternative?

Answer. The general approach that we used was to estimate the sizes and kinds of programs that would be needed to have a major impact on the various components of the national inflation and unemployment problem. We then estimated the costs of these programs and their expected impacts. The knowledge and data bases for doing this are still weak. For example, we had to estimate the impacts separately and neglect the interactions between the programs. Consequently, our estimates are rough.

Our cost estimates are higher than Dean Striner's because our recommendations are more comprehensive. While he concentrates on improving education and training (where we reach similar numbers), we advocate, in addition, improving the Employment Service, vocational counseling in schools, work experience for young people, new services for employers, child care for working mothers and support of geographic mobility. Since our recommendations are oriented toward the long run, we did not include public service employment. However, this might well be added, especially for its short term impact. Andy Brimmer, of the Federal Reserve, recently did an interesting study of this program for the Joint Economic Committee.

Our stress was on the program rather than their financing, but we thought that of the $14 billion needed, the Federal government might supply $9 billion with the balance coming from the workers and employers who benefit directly. If GNP rises by the $30 billion that we anticipate, tax revenues would rise by about $6 billion. We did not attempt to estimate the sizable savings to the government which would result from the reduction of unemployment compensation and welfare payments. One would also anticipate noneconomic benefits from the reduction of crime, juvenile delinquency, etc.

The details of our estimates are found in our paper Manpower Programs to Reduce Inflation and Unemployment: Manpower Lyrics for Macro Music, with

the technical details in the appendix. Much more work is needed on the dynamics of the labor market, program impacts, and program design, planning and financing.

Such a comprehensive manpower program would have important implications for dealing with international trade problems. Efficiency should be increased and the introduction of new technology and products facilitated. Inflation should be reduced, thereby decreasing the needs for exchange rate adjustments.

Whether this increased economic flexibility would fully offset the push for trade restrictions is hard to say. However, it is clear that using restrictions to block changes in the pattern of trade will increase rigidities and invite retaliation with the result that all countries may be worse off.

We should go as far as we reasonably can in facilitating manpower adjustments, and use trade restrictions as the last resort. Unfortunately, we are very late in getting started, so that workers and employers in affected industries have legitimate concerns.

In so far as possible, any trade restrictions should be a strictly temporary response to short term problems. Given enough time to adjust, large changes can be made with minimum of disruption to employers and workers. A sound case can be made for temporary trade restrictions to hold down the speed of adjustment but long run economic efficiency should be sought through trade adjustment assistance.

WRITTEN RESPONSE TO ADDITIONAL QUESTIONS SUBMITTED BY CHAIRMAN CULVER TO DR. HERBERT E. STRINER

THE ADMINISTRATION OF MANPOWER PROGRAMS

Question. Dr. Holt, in your paper, you recommend that the federal government take the lead in organizing, funding, and coordinating the nation's public private employment system. In your study, Dean Striner, you point out that the implementation of your recommended continuing education and training act and the utilization of a National Economic Security Fund (NESF) calls for a type of administrative organization which does not exist at present in any of the executive agencies of the federal government.

(a) First, could you comment on the effectiveness of the administration of present manpower programs; and

(b) Second, could you both elaborate on your thoughts for the creation of an effective operational and administrative system to implement manpower programs in the future?

Answer. (a) My study was not concerned with the effectiveness of the administration of the present manpower program; and hence, I cannot comment on it.

(b) I would think that the most effective operational and administrative system to implement manpower programs in the future would have to be based on the major assumption that, to begin with, there would be ample funds to develop a program rather than another demonstration project of what could be done. This also means there would have to be a sizeable increase in the acquisition of data concerning job vacancies and skill needs in the economy as well as information regarding the supply of individuals with skills as well as data concerning individuals in specific types of occupations.

The Employment Service, in effect, should become a major counseling service geared to meet the testing, guidance, counseling and placement needs of individuals after they have been provided with the proper skills. Throughout the entire operation of this sort of a system, there would have to be a continuing evaluation branch to evaluate the criteria, objectives and the effectiveness of the operation to meet previously developed performance criteria and objectives.

THE JOB INFORMATION AND PLACEMENT SYSTEM

Question. Labor has quite properly in my judgment said that "what we want are jobs, not relief checks." This goes, as I see it, to the failure of the present trade adjustment assistance program and perhaps even other existing manpower training programs, which were supposed to have provided retraining opportunities for new jobs and actual job placement, but which in the case of trade adjustment assistance has done practically nothing in this regard. A recent Wall Street Journal article pointed out that while unemployment is high, many good

jobs are awaiting takers. The article went on to say that more and more labor experts are putting the blame for this phenomenon on the nation's crude and inefficient system of informing the unemployed of suitable job openings.

(a) Dr. Holt and Dean Striner, could you comment on the status and effectiveness of the job information and placement system in the U.S.?

(b) Dr. Holt and Dean Striner, could you elaborate on your own recommendations for matching workers, jobs, and manpower services—for counseling and placement?

Answer. The status and effectiveness of the job information and placement system of the United States is grossly inadequate. When one compares it with the job information and placement systems of other major industrialized nations of the world, it is difficult to equate the United States system with them. To begin with, we do not have a compulsory reporting system for job vacancies. Without this sort of compulsory reporting system there can be no truly effective matching or placement system. We have to move ahead as rapidly as possible to develop an effective job information vacancy system not so much on the basis of it becoming a perfect system, but one which is, by and large, far superior to the present and inadequate information base which we look to for help in providing insight and guidance for training and placement. An important part of any job-matching system, of course, is a strong counseling service. There is no doubt in my mind that we have learned much in the past decade about the development of more effective counseling services. One problem which many people foresee is a shortage of counselors in the event we did gear up to provide far more adequate counseling services for the individuals who are looking for jobs or being matched to jobs. However, we did learn, under Projects Cause I and Cause II, developed and funded by the Department of Labor, how to train individuals from various fields other than counseling to act as counseling assistants.

DATA NEEDS: AN EARLY WARNING SYSTEM

Question. A key element in the job placement system is the data and analysis necessary to anticipate or, at least quickly identify job dislocations, occupations that are in short supply, the potential for creating new jobs and professions, and where the shortage areas are located. As Dean Striner points out in his study, nothing is more illustrative of our inadequate concept of dealing with the problem of matching workers, jobs and manpower services, and reducing critical skill vacancies than the apparent glut of teachers at a time when we have increasing numbers of young children whose reading levels indicate a serious gap in our efforts to deal with illiteracy.

Could you discuss some of the practical problems associated with developing an early warning system, particularly the timely and accurate collection of objective data, and its proper interpretation?

Answer. The most important problem in developing an early-warning system is the formulation of the questionnaire itself and definitions of what we mean by "job vacancies," "contemplated dislocations," as well as indications from management as to what occupations are in short supply. However, we have a number of models upon which we can base the development of our own information system. Western Europe is replete with countries which have developed such systems and where there is a high transfer value to our own. What is most important, however, is the development of a bridging mechanism between the source of such information and the institutions which would train the individuals or provide the education necessary for those individuals who would be going into the skill-shortage areas. The crucial problem is transferring information on projected job needs, or skill needs, to the likely institutions which can produce an increased available supply of individuals to meet these needs. I would think that the employment service, or a special Bureau of Manpower Skill Needs in the Department of Labor could be used to develop the means of transmitting such information, with constant updating of the validity of projected skill needs, to both public and private institutions concerned with the training of skilled manpower.

LABOR MOBILITY

Question. Both of your programs have as an underlying premise the theory of labor mobility in the United States. In other words, wherever there are surplus workers in one geographical area, the workers in those areas will be able

to move to other areas where there are shortages of individuals with their skills. As was pointed out in the Wall Street Journal article I previously mentioned, and by several earlier witnesses, "what hasn't been expected is the reluctance of American blue collar workers—long touted as the most highly mobile labor force anywhere—to budge from familiar surrounding when finding employment demands it." Besides the fact that the financial loss can be great, the breaking of ethnic or family roots often result in a considerable psychological cost.

(a) What steps can be taken to create mobility by assisting workers to overcome the cost factors?

(b) What if anything does behavioral psychology tell us about measures that might be taken to overcome the intangible factors making for reluctance to change employment locations?

(c) When it comes to the older worker, most of the suggestions we have seen would treat him as in effect unretrainable, and concentrate instead on such things as accelerating his pension rights and Social Security entitlement and the like. Is that our only option? It seems to me that with longer life has come a demand for greater dignity and respect for our older citizens, who want to continue to lead productive lives. Can we do something to accommodate that desire, perhaps at lesser cost than early retirement?

Answer. Job mobility has to be understood on the basis of different types of worker populations. Young workers tend to be far more mobile in many ways than the middle-aged worker who has a family, mortgage, and other attachments to his community. Older workers who no longer have young children or teenagers in the local school system, or mortgages, might also be far more mobile than one would expect. By and large, however, evidence from the Manpower Development and Training Programs and the Experimental and Demonstration Program undertaken in the middle 1960's by the Department of Labor, would tend to indicate that workers are mobile if obstacles to mobility, such as transportation costs and temporary housing needs can be dealt with by an income subsidy.

I would agree with the implicit statement you are making, that almost all workers can continue to lead productive lives and be retrained for market needs. Both in the United States and in Europe we have seen a number of training and education programs which have re-equipped older workers for jobs; and we have found that these jobs have been done well and with high productivity. In many instances, the types of jobs for which the older workers are best fitted are public service jobs which call for much maturity and judgment in dealing with community needs as opposed to production jobs which are found in the private sector.

EDUCATIONAL FACILITIES

Question. Are U.S. educational institutions operationally ready to absorb the influx of workers contemplated in your programs? Do we have adequate vocational programs? Do we have adequate community facilities and programs to operate continuing education and retraining programs?

Answer. If by United States educational institutions, we include proprietary institutions as well as public ones, then I would say that we would have available a sufficient number of institutions operationally ready to absorb the influx of workers for training which I feel would be necessary. In addition, over the last several years, there has been a tremendous rate of growth of community colleges and technical schools in our communities; all of which I would believe are capable of expanding their operations with added funding, to include training programs for the numbers which I envision.

A NATIONAL INDUSTRIAL POLICY

Question. We have addressed ourselves to the desirability and problems of establishing a national manpower program. However, can we isolate manpower development policy from a national industrial development policy? We don't really have such a policy in this country now, in comparison with some of the other countries, do we? What steps should we in the Congress be taking to move in that direction? I am talking really about investment mobility along with manpower mobility.

Answer. I do not know of any steps being taken in Congress at the present time to move in the direction of a Manpower Development Policy which is joined with a National Industrial Development Policy. Though we have talked about such an effort for many, many years, I have yet to see this accomplished. I doubt that

it will be accomplished as long as the manpower programs are usually developed within the confines of the Department of Labor and/or parts of the Department of Health, Education and Welfare, while the Industrial Development programs are under the aegis of the Department of Commerce. If these programs are to be developed in concert then one of two things must happen: either a joint effort under a new agency which is given the responsibility for it will have to concern itself with industrial development and manpower policy; or, if these two policies are developed by joint programs in the Department of Commerce and Department of Labor, one individual or overseeing group will have to have the "teeth" to implement this policy. Part of the failure of the C.A.M.P. Program (Cooperative Area Manpower Program) grows out of the fact that it was nothing but a series of treaties negotiated between the various concerned federal agencies. There was no overriding or over-arching responsibility granted to an individual or a bureau which could force these agencies to change policies or tailor their policies to meet the needs of a rational over-all systematic program.

FEDERALIZATION OF THE ADJUSTMENT ASSISTANCE DELIVERY SYSTEM

Question. Dean Striner, the base of your program is premised on the federalization of all state unemployment insurance funds and their conversion into a National Economic Security Fund (NESF). The NESF would fund both the new education training program and unemployment security benefits.

As I understand, employment security was federalized during World War II, and since then the entre cost has been borne by the Federal government. So federalization may not be quite so radical a suggestion as it first seems. Would it be feasible and desirable in your judgment as a first step to federalize the delivery of trade adjustment assistance, bearing in mind that this might require the initial creation and funding of a wholly separate administrative structure?

Answer. During World War II, the employment services of the various states were federalized, but the actual unemployment insurance reserves were not federalized. I think that it would be feasible to take a first step in the direction of federalization of some part of the unemployment insurance reserves as a means of delivering trade adjustment assistance. However, I do think that the rationale of what I am trying to say to your Committee, as well as what I perceive Dr. Holt is trying to say to your Committee, is that unless the Trade Adjustment Assistance Program is seen as part of an over-all manpower program and training system, we will always be in trouble on any trade adjustment assistance program.

THE INTERRELATIONSHIPS OF UNEMPLOYMENT, INFLATION AND MANPOWER PROGRAMS

Question. Both of you conclude there is a clear need for governmental intervention in the labor market on the micro level with new kinds of manpower policies in order to control unemployment and inflation.

Could you spell out for the Committee in A–B–C fashion the interrelationship between unemployment and the upward inflationary spiral and how effective manpower programs could reduce inflation, and productivity and increase our international efficiency?

Answer. I believe that the materials submitted by Dr. Holt and his colleagues from the Urban Institute spell out the relationship between unemployment and inflation as well as productivity changes quite clearly. I would merely like to say that in my report, "Continuing Education as a National Capital Investment," we also find evidence on pages 59 and 60 supporting the fact that the rate of unemployment in a nation can be lowered without creating an excessively high rate of inflation but only if we undertake large-scale retraining and reeducation programs in order to insure an adequate supply of trained manpower. In the case of Germany, this has been done quite successfully. In the case of the United States, I think it can be shown by the chart on page 60, that we have not been able to succeed.

What we need, among other things, is a system by means of which we can obtain information in sufficient time to know where skill shortages are in our economy, where productivity will be dropping, and where wage inflation will be taking place in order that we can begin to train adequate numbers of individuals with the skills necessary to fill jobs in these areas. Of course, fiscal and monetary policy are also of tremendous importance in dealing with the problem of inflation; but I would submit that up until this time we have been more concerned

with fiscal and monetary policy than we have been concerned with manpower policy. Both Dr. Holt and I agree that manpower policy is one area where we perhaps can make some of the most important gains if we are to achieve control of inflationary levels, increase productivity, and, of course, lower the rates of unemployment.

COST ESTIMATES

Question. Dr. Holt, you have estimated the social cost of your recommended program at approximately $14 billion. Dean Striner, the estimate for your recommended program is about $6 billion.

(a) Could you explain the way the costs have been computed, and the reasons for the difference?

(b) How would the programs be financed?

Answer. There is no real difference between Dr. Holt's estimate and mine. My estimate is based on a limited number of individuals, about 1% of the labor force, which could be placed back into a training situation and alleviate unemployment for this 1% of the labor force. At the present time, this could lower our unemployment rate quite substantially. Dr. Holt's estimates are based on a much larger number of individuals among the unemployed. I would suggest that in looking at the arithmetic that Mr. Holt has used I would reach approximately the same level of funding if I were to assume a training and education program for a little over 2% of the labor force.

As I have suggested in my study, I believe that such a program can be financed by moving our philosophy away from the use of unemployment insurance funds in order to pay unemployment insurance benefits, and rather utilize these funds to train and educate individuals throughout their life period for the jobs which, I feel, are now, and will in the future, be available in our economy.

I would add parenthetically, that when you add up the total cost of funding a $13 or $14 billion program or even a $16 billion program for training and educating over 2% of our labor force for jobs which exist in the economy, you should of course subtract a substantial amount of money which would be saved by programs which my program would replace. For example, almost all of the current funding of the diverse and large numbers of manpower programs in the United States would be eliminated. The W.I.N. Program, the M.D.T.A. Program, the C.E.P. Program, and all of the other programs, including the summer "Make-Work" Program for our young people, would all be eliminated. These funds could be subtracted from the total cost of the program I am suggesting, if you wish to compute the true net cost of the program under my National Economic Security Fund.

Mr. CULVER. The subcommittee will stand adjourned until tomorrow at 1:30 p.m.

(Whereupon, at 3:55 p.m., the subcommittee adjourned, to reconvene at 1:30 p.m., Wednesday, May 10, 1972.)

TRADE ADJUSTMENT ASSISTANCE

WEDNESDAY, MAY 10, 1972

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY,
Washington, D.C.

The subcommittee met at 1:36 p.m., in room 2172, Rayburn House Office Building, Hon. John C. Culver (chairman of the subcommittee) presiding.

Mr. CULVER. The subcommittee will come to order.

Today the Subcommittee on Foreign Economic Policy begins its fifth day of hearings on the concept and workings of trade adjustment assistance. Since there is underway a major interagency review of the whole program of trade adjustment assistance with a view to reform the system, it is most fitting to welcome senior officials of two of the Federal departments mostly concerned with the implementation of an effective adjustment assistance program: Under Secretary of Labor Laurence H. Silberman and Under Secretary of Commerce James T. Lynn.

We are very delighted to welcome you both here today, and we would like to first hear from Mr. Silberman.

STATEMENT OF HON. LAURENCE H. SILBERMAN, UNDER SECRETARY OF LABOR

Mr. SILBERMAN. Mr. Chairman, Mr. Lynn, I gather, will be up here in a short time. I understand the format is that I will deliver my statement, then he will deliver his statement, and we will then both be prepared to answer questions.

I would like to introduce, to my left, Herbert Blackman, who is the Deputy Assistant Secretary for Trade and Adjustment Policy.

Mr. Chairman, I welcome the opportunity to discuss problems associated with the dislocation of domestic employment resulting from tariff reductions which allow increased foreign imports. These problems merit our attention because we recognize the importance of harmonizing immediate social and economic interests with long-range national policy objectives.

Let me start from the premise that international trade benefits the economy as a whole, bringing effective price competition, enlarged markets, wider job opportunities, and a greater range of goods for all our citizens. As trade and world markets have expanded, international competition has become more intense. Technology and capital are no longer contained within national borders, world population is pressing

upon the resources of the planet, and workers everywhere are seeking the dignity of meaningful jobs and a living wage.

It is in this context that the Nixon administration has dedicated itself to the objective of freer international trade based on true reciprocity and fair and equitable dealing among nations. The United States has some special problems in moving toward these objectives. This country remains the market of prime choice for world goods and is one of the most open markets among the industrialized countries of the world.

The President in his actions in the monetary and fiscal field and in his fight against inflation has moved dramatically to correct certain imbalances in the international picture and to improve the world competitive position of U.S. products. As a corollary to these far-ranging measures, designed to strengthen the U.S. economy, an effective system of trade adjustment assistance should enable us to cope more successfully with specific problems of import-related employment dislocation which arise from time to time incident to the expansion of world trade.

Adjustment assistance is a vital tool to ease the disruptions that may result from the import implications of nonrestrictive trade policies. This was recognized in the Trade Expansion Act of 1962, and more recently in our proposed Trade Act of 1969, which would have liberalized adjustment assistance criteria to deal more effectively with employment displacement resulting from import competition. Then Secretary of Labor George Shultz, in his testimony on that bill, stated the rationale for the adjustment assistance program: "The important consideration is that some Americans have been harmed by a situation that benefits the Nation as a whole, and we cannot expect the few to bear the entire cost."

We are again considering measures to improve adjustment assistance. Some are similar to those in the 1969 bill; others are different. Looking at adjustment assistance in 1972, we must bear in mind that significant changes have occurred in the broad area of employment security since the adjustment assistance program was established in the 1962 law. It was only in that year that our first modern, national manpower training effort was begun, with the enactment of the Manpower Development and Training Act. In the decade since, we have seen the expansion of MDTA and passage of the Economic Opportunty Act. Also, the past 10 years have brought expansion of the Federal-State employment security system, and substantial liberalization of unemployment insurance payments. On still another front, participation in private pension plans continues to grow, and the administration has proposed new legislation to require vesting standards for such plans.

All of these changes have resulted in an increase in security for all working Americans, including those in industries affected by import competition. That is a relative increase, of course. Private sector jobs and on-the-job and institutional training are provided under the MDTA; work experience programs under the EOA. The Federal-State employment security system provides unemployment insurance and plays an integral role in the delivery of manpower services, including the finding of job opportunities, recruitment, and placement. If vesting standards for private pension plans are enacted, and I

might add that there is wide bipartisan support for this concept, if not for the exact form, yet another type of security will be available, in the form of assured retirement benefits for participants in such plans.

The "rule of 50" vesting standard, which is embodied in the Administration's proposal, and which is now the subject of hearings in the Ways and Means Committee, is designed to be especially helpful to older workers. In addition, there will be incentive for increased labor mobility, with the assurance that earned pension credits will not be lost by switching jobs. As I will mention further on, it is this impediment to labor mobility which presents one of the greatest problems with effective delivery of adjustment assistance.

Thus, the trend of the past decade has been clearly toward increased labor security and protections for workers displaced by economic forces, both foreign and domestic. In light of these developments, it is appropriate to consider adjustment assistance in a broader context than that which prevailed when the TEA was enacted in 1962.

For example, it is obvious that adjustment assistance will be more effective in dealing with particular situations of import-related dislocation when the economy as a whole is growing and where employment opportunities are high. In that sense, all programs to facilitate employee adjustment to changes are interrelated. The workers involved in import-related dislocation are experienced and have firm attachments to the labor force, so that with adequate counseling and training they should be able to get back into the labor force quickly. Thus, our experience with the trade adjustment assistance program will be helpful in developing approaches to our other manpower and employment security programs and, conversely, these broader programs have implications for trade adjustment assistance.

Most other advanced industrial nations relieve employment dislocations resulting from import competition in the framework of broader employment security. With one or two exceptions, they do not have focused trade adjustment assistance programs like ours. Also, in many of these countries, the relationship between government and economy is one of more direct and persuasive management than it is under our system. For these reasons, it is difficult to make direct comparisons on the efficacy of the trade adjustment mechanisms. However, a major concern of U.S. trade policy is to assure true reciprocity in future negotiations to reduce tariff and nontariff barriers to trade. If the major trading countries have effective internal adjustments procedures, they will be more responsive to the reduction and removal of existing trade barriers and thereby enhance the success of future trade negotiations.

The adjustment assistance concept has caught the imagination of many individuals and groups who view it as the answer to policies that could otherwise lead to trade wars and jeopardize our efforts to achieve a stable and lasting peace. To the extent that we and our major trading partners have effective trade adjustment assistance programs, the prospects for meaningful reductions in tariff and nontariff barriers will be enhanced. Perhaps if there were a consensus on this view, it would be possible to establish some general international guidelines for countries which would help limit the transfer abroad of the costs of internal

adjustment which currently occur through resort to restrictive trade measures.

Continued adherence to liberal trade policies has been, and remains, the goal of this administration. For this reason, we strongly oppose pending restrictive legislation such as the Foreign Trade and Investment Act of 1972, which with limited exceptions would set quotas on all imports. The establishment of such a system would be a leap backward toward protectionism, and would no doubt be met by mutually restrictive measures by our international trading partners.

Our opposition is equally strong to proposals such as that contained in title III of H.R. 7130, which I understand is being debated on the floor of the House this afternoon, Mr. Chairman, that would authorize higher tariffs or import quotas on competitive goods produced abroad under working conditions not meeting United States minimum standards. Virtually all imports, except perhaps those from Canada, would fall within the sweep of this ill-conceived legislation. The net result would be to reduce, rather than increase, domestic employment opportunities. We could readily expect reciprocal retaliatory quotas on our exports, leading to employment cutbacks in our exporting industries. Moreover, the ability of our trading partners to purchase United States goods would be curtailed, since many foreign traders depend on sales to the United States to earn the necessary foreign exchange to purchase our exports. Finally, the proposal would tend to shift U.S. consumption and production to higher cost goods, thereby contributing to the inflationary pressures against which vigorous national efforts are now being directed.

While affirming our commitment to freer trade, with adjustment assistance as a mechanism to ease import-related economic disruption, I would also stress that we recognize there are cases in which adjustment assistance is not a wholly adequate tool to deal with problems arising from import competition.

Adjustment assistance can be an effective policy when used in conjunction with other available foreign and domestic economic policies. For example, adjustment assistance and orderly marketing arrangements can be complementary policies that should increase the cost effectiveness of each. The Williams Commission referred to situations where an industry produces a range of products which can easily be substituted for each other and where the entire line of production of an industry is affected by a rapid increase of imports. In such "market disruption" situations, orderly marketing arrangements may be necessary and temporary tools of trade policy to ease the broader problems of adjustment. This administration has been successful in making such arrangements in the cases of textiles and steel, which fit the criteria to which I have referred.

The promise of the TEA trade adjustment assistance program, directed specifically at the disruption of jobs due to increased imports caused by tariff reductions, has not been fully realized. For the first 7 years after enactment, until almost the end of 1969, no relief was provided to aggrieved workers or firms because they were not found by the Tariff Commission to meet the qualification standards of the program. To trigger adjustment assistance, the Tariff Commission under present law must find that increased imports are the major

factor in the workers' dislocation and that such imports are due in major part to tariff concessions. It was not until late 1969 that the Commission began to make such affirmative findings, thereby allowing groups of workers to gain access to the program. Not until then did the Labor Department have an opportunity to begin utilizing its system for delivering assistance to the workers.

Since that time, the Department has issued 57 certifications of eligibility of workers to apply for trade adjustment assistance under the TEA. The terms of these certifications, which identify workers laid off from a specific plant or section thereof and the impact date, cover approximately 24,000 individuals. This is the number of persons who are potentially eligible to apply to their local employment security office for adjustment assistance.

However, a significant number of these individuals do not actually apply for or receive trade adjustment assistance. For example, in order to qualify for assistance, the individual must have been employed in the adversely affected plant for at least half the 52 weeks prior to his layoff and must have had gainful employment for at least half the 3 years prior to layoff. Also, he must have been terminated because of lack of work. Some individuals do not apply for trade adjustments assistance because they get new jobs immediately upon layoff, or they retire or drop out of the labor force. Some others, despite strong Department of Labor outreach efforts such as personal letters and special news releases, are not aware that they have become eligible to apply for the special assistance.

The measure of those workers actively seeking trade adjustment assistance is the number who have applied to their State employment security offices for assistance and have been found to meet the work experience qualifications. Approximately 15,000 such individuals have qualified and have received an initial cash readjustment allowance payment. This is about 63 percent of the potentially eligible caseload of 24,000. Also, account must be taken of some lag in application by individuals covered by certifications recently issued, and for delays due to the time involved in processing by the States of individual claims. Overall, it is reasonable to conclude that about three-fourths of all potentially eligible workers will eventually receive some form of assistance.

Under the program, three types of assistance are authorized: allowances, training, and relocation assistance. The allowances have been by far the most common form. The law provides that eligible workers are entitled to Federal allowances which are reduced by the amount of any unemployment insurance received. The trade adjustment allowances are set according to a basic formula at 65 percent of the individual's average weekly wage for a specified prior period, but cannot be greater than 65 percent of the national average weekly wages in manufacture. Currently, the TRA maximum is $93 per week. Allowances are payable for a duration of up to 52 weeks and may be extended for as much as 26 weeks to complete training which was started during the initial perod. Workers over 60 at the time of layoff may draw up to 65 weeks of assistance.

From the perspective of our experience, we can see some of the reasons why the program is less effective than it might be. For adjustment assistance to be fully effective, a problem of economic displace-

ment must be rapidly identified and resources to assist workers must be quickly mobilized. This is difficult to do under present circumstances because of delays which occur in the program.

For example, until just recently certifications authorizing assistance payments often were not issued until well after the fact of import-related unemployment, sometimes as long as a year or more. This time lag resulted in part from the fact that this is a relatively new program—at least from an operational standpoint—operative only since the end of 1969, and many workers are only now becoming aware of its availability and the desirability of prompt application. The progressively larger number of workers submitting petitions to the Tariff Commission is an indication that more employees know about the program. On March 31, 1972, over 30 petitions were either in the hands of the Commission or in the final stages of preparation for submission within the next several weeks.

Another part of the lag reflects the complexities of the petitioning process and time spent in conducting required investigations. There are two ways in which a group of workers can become eligible to apply for trade adjustment assistance. The first, and most common, is by petitioning the Tariff Commission directly, but workers sometimes encounter time-consuming difficulties in gathering the information required for petitions and in presenting it in proper form.

If the petition is accepted, the minimum time before individuals can apply for assistance is just under 3 months. The law allows 60 days from the date the petition is filed for the Tariff Commission to investigate and report its findings to the President. If the report is affirmative, the Department of Labor then institutes its investigation to determine the date of adverse impact and identify the affected workers. Under our regulations the investigation must be completed and a recommendation made as to certification within 20 days. The certification itself is then generally issued by the Department within 10 days thereafter. Recently we have seen an encouraging rise in the number of certifications issued within 3 to 4 months after the workers' petition is filed.

Adjustment assistance also may be obtained by workers where the President, following an affirmative finding by the Tariff Commission in an "industry escape clause" investigation, provides that workers in the affected industry may request the Secretary of Labor to certify their eligibility to apply for adjustment assistance. This is a longer route, which involves a 6-month Tariff Commission investigation of the entire affected industry and as much as 2 months for an executive branch review of an affirmative Commission finding. Then, after a group of workers has filed a petition with the Department of Labor, they must await an investigation by the Department, for which a maximum of 60 days is allowed, before being certified to apply for adjustment assistance.

Once the workers' petition is filed with the Department of Labor, it is expedited. We process as rapidly as possible; if details are lacking, they are picked up in the course of the investigation. Presently we utilize less than our allotted time for conducting investigations. Our 20-day investigations are usually completed within 15 days; and our 60-day investigations are often completed within 30 days. Certifica-

tions in both cases are generally issued within 1 week of completion of the investigation.

Thus far, I have mentioned several points of delay; the lapse between the time of layoff and the petition for assistance, the time spent in conducting investigations, and the processing of individual claims by the State agencies. The law provides that if workers are certified eligible to apply for assistance, the assistance is available as of the date unemployment commenced. Because of the aggregate time losses which I have just described, much of the assistance has been retroactive, in the form of lump sum payments for past weeks of unemployment. This has seriously diminished the feasibility of prompt retraining, as provided in the law, and has made relocation assistance, which is also provided, less useful than it would be otherwise. In addition, difficulties in meeting Tariff Commission petition requirements add to the delays, and worker frustration due to these difficulties may have the effect of discouraging them from petitioning for adjustment assistance and encouraging them to expend their resources on other avenues of relief.

The delays, however, are only part of the problem, especially with respect to relocation assistance. Mobility of labor is a continuing problem, not only as regards the trade adjustment assistance program, but throughout the economy in general. The relocation part of the adjustment assistance program is helping us to learn about impediments to labor mobility. We have found, for instance, that the age of the employee, his family status, and the extent and longevity of his community ties are all important factors in considering the feasibility of relocation.

Recently we have taken a number of steps to improve program implementation. A coordinating committee has been established to oversee all program operations. It consists of representatives from the administrations within the Department which have a role in the assistance program. We are providing information and assistance to workers so that they can file acceptable petitions as soon as possible following their unemployment or notice of upcoming unemployment. Mass layoffs reports are being used to identify potentially eligible applicants. An experimental system to help import-impacted workers obtain training is now in the final stages of planning. When it is operational, displaced workers will be allowed to choose their own courses at private or public training institutions. Federal payments will cover tuition and other expenses up to an appropriate limit. We also understand from discussion with the Tariff Commission that it is considering reducing the information required in petitions and issuing a standard petition form.

The State agencies that constitute the delivery system are being given greater assistance and support in setting up particular adjustment assistance programs. The random incidence of adjustment assistance cases makes it prohibitively expensive to support an active adjustment assistance capability in all State agencies. However, we believe we have sufficient prior notice of impending certifications to prepare a particular State agency so that it can effectively administer the program immediately following the issuance of a certification.

There is evidence that these improvements are beginning to pay off. For example, in Memphis, Tenn., workers from a television plant

were certified as eligible to apply for adjustment assistance 6 months after the plant closed down in January 1971. Most of the workers retained several months current eligibility for assistance allowances, and practically all of these individuals have received general manpower services. As of May 4, 1972, 960 workers were receiving services, and 679 of these were in training programs for employment in such occupations as cosmetology, secretarial, or computer operations. Thirty-nine have completed training and are currently employed; another 165 have found jobs through the employment service or by their own efforts.

Our goal in the trade adjustment assistance program is to insure that it truly becomes, and remains, an effective component of our national effort to ease international trade restrictions. The executive branch has been studying this entire area, including the role of adjustment assistance. As a result of our studies, we will understand more fully the relationship between American trade policy and adjustment assistance, as well as the proper role of adjustment assistance in the broad context of employee security to which I referred earlier.

Thank you, Mr. Chairman, for inviting me to present this testimony. I hope that I have helped to shed some light on the adjustment assistance program. I will be happy to answer questions that you or the members of the subcommittee may have.

I see that my colleague and counterpart from the Department of Commerce is here, so I will defer to him.

Mr. CULVER. Thank you very much, Mr. Silberman, for your testimony.

Mr. Lynn.

STATEMENT OF HON. JAMES T. LYNN, UNDER SECRETARY OF COMMERCE

Mr. LYNN. Thank you, Mr. Chairman.

I welcome the opportunity afforded by these hearings to report to the committee concerning the administration of trade adjustment assistance by the Department of Commerce. In so doing, I will limit my comments to adjustment assistance to firms. Under Secretary of Labor Silberman has addressed this committee regarding trade adjustment assistance for workers, as well as certain broader aspects of the trade situation.

Previous witnesses have testified in considerable detail with respect to the statutory requirements set forth for the adjustment assistance program in the Trade Expansion Act of 1962. The administration of the adjustment assistance program for firms must, of course, be explained in light of these statutory criteria.

The Trade Expansion Act of 1962 provides for assistance to firms which have been found seriously injured, or threatened with serious injury, from increased imports resulting in major part from trade concessions granted by the United States. The act provides two alternative methods by which firms may be certified eligible to apply for adjustment assistance.

Under the first alternative, an individual firm may petition the Tariff Commission for a determination of eligibility to apply for

adjustment assistance. After receiving the petition, the Tariff Commission conducts an investigation and submits its findings within 60 days. Upon receipt of an affirmative finding of injury by the Tariff Commission (or by the President in cases of an evenly divided vote), the Secretary of Commerce may certify that the firm is eligible to apply for adjustment assistance.

The second alternative set forth in the act provides that a firm or trade association or other industry representative may petition the Tariff Commission on behalf of an entire industry. The Tariff Commission then conducts an investigation and submits its report within six months. Upon receipt of an affirmative finding by the Tariff Commission, the President may specify that firms within the industry may apply to the Secretary of Commerce for certification of eligibility to apply for adjustment assistance. Any firm within the injured industry may then be certified by the Secretary of Commerce as eligible to apply for adjustment assistance.

Within a period of 2 years after certification of eligibility to apply, a firm may file an application for adjustment assistance. In order to receive assistance, the firm must submit a proposal that is "reasonably calculated materially to contribute to the economic adjustment of the firm," and this proposal must give adequate consideration to the interests of the firm's workers.

The Trade Expansion Act provides for basically three kinds of adjustment assistance for firms. These are: financial assistance, technical assistance, and tax assistance.

Financial assistance consists of direct loans, deferred Government participations in loans, and guaranteed loans for the purchase, development, or modernization of fixed assets. Under the act, funds to provide working capital may also be provided in "exceptional" cases.

There are basically two types of technical assistance. The first type, which may be provided during preparation of adjustment proposals, consists of advice and consultation with the Department of Commerce or other Government departments or agencies, or the services of private consulting firms.

The second type of technical assistance, available after an adjustment assistance proposal is approved, consists principally of consultant's services to provide market and other economic research, feasibility studies, managerial advice and counseling, operation and engineering assistance, aid in establishing financial controls, employee training, and assistance in research and development in order to establish profitable operation of the firm.

The act requires the Secretary of Commerce to refer each certified adjustment proposal to appropriate government agencies to furnish the financial and technical assistance necessary to carry out the proposal. However, if this relief is unavailable elsewhere, it may be provided by the Commerce Department.

Finally, tax assistance may be provided, through the Internal Revenue Service, in the form of a refund of some Federal income taxes already paid.

Under the tax assistance mechanism specified in the Trade Expansion Act, a firm is permitted to extend the carryback of net operating losses to the 5 taxable years preceding the year of the loss, rather

than the 3 years ordinarily provided for loss carrybacks under the Internal Revenue Code.

Provision of tax assistance requires a finding by the Secretary of Commerce that the loss claimed arose predominantly from a trade or business which was seriously injured, during the year for which the loss is claimed, by the increased imports attributable in major part to trade agreements. The firm must also show that such assistance will contribute materially to its economic adjustment.

So much for a brief summary of the statutory provisions. Let us now consider the administration of this program.

Shortly after President Kennedy signed the Trade Expansion Act into law in October 1962, an Office of Trade Adjustment Assistance was established within the Office of the Secretary of Commerce. Implementing regulations were published, but without policy guidelines to implement the statutory criteria of the act.

The expected flow of applications for adjustment assistance did not materialize. With a strict construction of the statutory criteria, the Tariff Commission did not rule affirmatively on any petition.

This period of total adjustment assistance inactivity continued for about 7 years, during which the Office of Trade Adjustment Assistance was little more than a name on an obscure office door in the Business Defense Services Administration, the predecessor of the Bureau of Domestic Commerce.

This is a fact which cannot be stressed enough: the trade adjustment assistance program, although established 10 years ago, is in fact a new program in only its second year, and one in which most applications for assistance have presented novel problems and required new policy decisions.

In 1969, the Tariff Commission began to find with greater frequency "injury" and "threat of serious injury" under the statute. Late in 1969, a petition of the National Piano Manufacturers Association was approved by a 3 to 2 vote of the Commission—the first adjustment assistance petition approved in the history of the program.

This action was promptly followed by a series of other affirmative rulings by the Tariff Commission, or action by the President to break a tie vote of the Tariff Commission, which resulted in applications by individual firms to the Department of Commerce for adjustment assistance. Accordingly, the Office of Trade Adjustment Assistance (OTAA) was reactivated and the trade adjustment program was established as one of the five constituent offices within the Bureau of Domestic Commerce.

At that point, however, no funds had yet been appropriated to the Department for trade adjustment assistance. It was therefore necessary for the Department to rely upon the Small Business Administration to fund the first trade adjustment loans approved.

Although SBA cooperated completely in this respect, it was, of course, more desirable that the Commerce Department secure funds of its own to administer the program. Accordingly, the Department of Commerce sought and received from the Congress for fiscal year 1972, $65 million of no-year money for financial assistance.

Technical assistance has been and continues to be funded, to the extent permissible, within the Department by the Economic Development Administration.

A consolidation of these forms of assistance in OTAA will take place if Congress approves the requested change in the existing appropriation for fiscal year 1973, whereby up to $5 million of the $65 million appropriation I have mentioned would be made available to OTAA for technical assistance to applicant firms, in addition to the financial assistance already available in the form of direct loans, loan guarantees, and deferred participations.

A significant task which faced the Department in establishing a meaningful program of adjustment assistance was the formulation of a comprehensive set of implementing regulations. The regulations initially issued in 1962 amounted to little more than a quotation of the applicable statutory criteria and a designation of officials authorized to process applications.

I do not intend this comment as a criticism, in view of the fact that those who were then charged with administering the program were without any cases on which to acquire the experience to formulate policy guidelines to implement the broad and often ambiguous statutory criteria.

We have also found that the ambiguous language of the Trade Expansion Act of 1962 governing assistance to firms simply could not be transformed by a few strokes of the pen into a body of regulations by which adjustment assistance could be effectively administered.

With each adjustment assistance case, the Department of Commerce is still today confronted with new policy issues, many of them unanticipated by those who drafted the act a decade ago. These require the most careful consideration of the precedents necessarily established in resolving them.

For example, a key sentence in the Trade Expansion Act states that adjustment assistance to firms shall be provided only if the Secretary of Commerce finds that such assistance will be "reasonably calculated materially to contribute to the economic adjustment of the firm." There is little comfort in such language for those who have to rule upon the merits of an individual application.

During the course of the past year, much of the Department's effort in the implementation of the program has been devoted to the elaboration and interpretation of the statutory language of the Trade Expansion Act in a new body of administrative regulations. These regulations were published in proposed form in the Federal Register on February 18, and final regulations are expected to be published this month.

Turning to the applications for adjustment assistance which have been considered or are pending before the Department, to date a total of 20 firms have applied for certification of eligibility. Of these firms, 18 have been certified eligible to apply, one has been denied certification, and one application is currently pending.

I have attached to my prepared statement a table listing those firms which have received trade adjustment assistance. With your permission, I would like to submit this table for insertion in the record.

Mr. CULVER. Without objection, so ordered.

Mr. LYNN. Thank you.

(The document referred to follows:)

TRADE ADJUSTMENT ASSISTANCE AUTHORIZED AND DISBURSED UNDER CERTIFIED ADJUSTMENT PROPOSALS AS OF MAY 1, 1972

Company	Industry	Type of Assistance	Authorized		Disbursed/Received	
			Amount	Date	Amount	Date
The Arista Co.	Textile/data processing.	Tax [1]	[2] $150,000	Jan. 11, 1972	$187,751	Apr. 4, 1972
ASG Industries, Inc.	Sheet glass	Financial	4,000,000	Dec. 7, 1971		
Bel-Tronics Corp. [3]	Electronic components.	Financial	647,000	Mar. 3, 1972	394,000	Apr. 18, 1972
		Technical	[2] 55,000	do		
Benson Shoe Co. [3]	Shoe	Financial	1,400,000	Nov. 19, 1970	1,102,000	[4] Jan. 7, 1971
		Technical	[2] 250,000	do	81,100	[5] Sept. 7, 1971
		Tax [1]	[2] 7,000	do	9,440	Sept. 10, 1971
Estey Piano Corp. [3]	Piano	Financial	[6] 2,700,000	Mar. 4, 1971		
		Technical	[2] 90,000	do	29,764	[5] Dec. 1, 1971
Louis Shoe Co. [3]	Shoe	Financial	672,000	Oct. 19, 1971	192,000	Dec. 21, 1971
					200,000	Jan. 20, 1972
		Technical	75,000	do		
Emil J. Paider Co.	Barber chairs	Financial	3,800,000	Aug. 20, 1970	3,800,000	[4] Sept. 29, 1970
		Technical			[7] 11,141	[5] Jan. 10, 1972
H. H. Scott, Inc. [3]	Consumer electronics.	Tax [1]	[2] 230,600	Dec. 23, 1971	233,808	Mar. 10, 1972

[1] Actual amounts of tax refunds are determined by the Internal Revenue Service.
[2] Estimate.
[3] Data shown exclude preproposal technical assistance provided each firm under an EDA contract.
[4] Date of 1st disbursement by SBA.
[5] Date of 1st disbursement by EDA.
[6] Expected to be $1,100,000 in revised proposal.
[7] Technical assistance under EDA contract at request of SBA.

Source: Office of Trade Adjustment Assistance, Bureau of Domestic Commerce, U.S. Department of Commerce.

Mr. LYNN. In connection with this table, I would like to point out that the time lapse between application by a firm for eligibility to apply for adjustment assistance and the certification of such eligibility depends largely on whether the case stems from an injury determination with respect to the particular firm or with respect to the whole industry.

There is no finding of injury or threat of injury to any particular firm in cases where the Tariff Commission finds injury with respect to an industry and the President authorizes firms within the industry to request certification of eligibility to apply for adjustment assistance.

Accordingly, the Department must make a thorough investigation of the facts pertinent to each applicant firm, before determining whether the firm is eligible to apply for adjustment assistance.

On the other hand, where the certification of eligibility to apply follows a Tariff Commission determination of injury upon petition of a particular firm, the Department's certification of eligibility to apply is, as a practical matter, largely pro forma. The extent of our review in such cases is limited to obtaining adequate assurances that no material facts were omitted and that there has been no significant change in economic circumstances affecting the firm since that time.

The new regulations recognize this limited scope of review, and should enable the Department to substantially expedite these cases.

In an individual firm case, an application to this Department for certification of eligibility to apply will be processed promptly, generally within 20 days.

In cases where the Tariff Commission has made an injury finding as to the whole industry—as opposed to an individual firm—the time

involved is much longer. In these cases, apart from the fact that recourse to adjustment assistance is contingent upon an intervening decision by the President that such form of relief shall be available, the findings of the Commission with respect to the industry are not necessarily illustrative of the situation with respect to a particular firm.

We must, therefore, determine whether the particular firm which has petitioned has been injured by the imports which the Tariff Commission found were injuring the industry.

The length of time required for such an investigation depends on many factors, including the size of the firm, the diversity of its product line, the adequacy of its recordkeeping, and the adequacy of the data submitted by the firm to the Department.

One such investigation took as long as 10 months, while another was completed within 2 months, although most cases more closely approximate the latter than the former. We are now at the point where each case no longer involves entirely new policy considerations, and I expect the time lapse between receipt of an application for certification of eligibility to apply and the granting of assistance to be even further reduced as we gain more experience.

Mr. Chairman, I have so far discussed our experience in administering trade adjustment assistance within the framework of the Trade Expansion Act of 1962. As you know, the principal purpose of that act was to provide authority for the most sweeping round of U.S. tariff concessions in the history of this country.

Unfortunately, many of our hopes and expectations—in particular, the hope that our actions would result in a commensurate reduction of barriers, particularly nontariff barriers, to U.S. exports—have been in some measure frustrated by the emergence of new problems in the international economic system.

As Under Secretary Silberman has outlined, this administration has worked hard to reevaluate and realign our foreign trade policies to reverse the deteriorated position of the United States as a major trading power.

As this committee well recognizes, changes in trade adjustment assistance must be considered as an integral part of this overall reevaluation of our trade policies.

Even at this point, however, we can recognize and appreciate the widespread feeling that the present structure of trade adjustment assistance is defective in several important respects. This has been documented in the report of the Williams Commission and elsewhere. We have been studying the various approaches suggested in that report and elsewhere.

The Department of Commerce is working now to improve the adjustment assistance program, increase its effectiveness and utility, and eliminate some of the major drawbacks of the program envisioned under the Trade Expansion Act.

One of the criticisms of the present program is that although the Trade Expansion Act contemplates eligibility for assistance in the event of a threat of serious injury caused by imports, the statutory criteria are so stringently applied by the Tariff Commission that many firms do not qualify until they have reached a point of virtual bankruptcy.

Too often, then, assistance can become a case of giving a blood transfusion to a corpse.

To remedy this problem, we are moving ahead in the Department of Commerce to give close and expedited attention to efforts to develop an early action mechanism to spot potential import-impact problems and help industries and firms take prompt action and responsive steps before a critical point of economic detriment is reached.

Another criticism is that the Trade Expansion Act does not provide a mechanism whereby an industry—as distinguished from an individual firm—can receive adjustment assistance apart from escape clause relief. Possible solutions could involve the new experimental technology program we have proposed in the 1973 budget of the National Bureau of Standards, as well as increased use of the facilities and resources of the Economic Development Administration in dealing with import-affected regions or communities.

In concluding, Mr. Chairman, I want to express my appreciation for the opportunity to appear before this committee. I believe that the commentary and debate fostered by these hearings will be of great assistance in our reevaluation of trade adjustment assistance in the context of our overall foreign trade policy.

Mr. CULVER. Thank you very much, Mr. Lynn, for your statement.

Mr. LYNN. Thank you, Mr. Chairman.

Mr. CULVER. Mr. Silberman, one of the things that we are beginning to realize in such a strong way as we move into the area of trade adjustment assistance is that if we are going to have a viable alternative to protectionism, it is essential that we have available programs in training and education that would permit us to have some response other than protectionist reaction to these industries and work forces that are adversely affected by economic penetration and adverse import dislocations.

As we have begun to move into this area, the one outstanding fact, to me, is the recognition increasingly that to try to make some of these distinctions between unemployment necessitated by import competition and unemployment brought about for whatever other combination of reasons becomes not only extremely difficult but highly questionable. I think in your own statement you made reference to this realization.

When we compare our approach to the general problem of manpower and retraining with other industrialized nations of the world, we see them address this problem in its totality and place it in a perspective both human and economic. This to me is much more rational, much more realistic, much more intelligently based.

Now you mention on page 5 of your statement that in the past decade the trend has been increasingly toward greater labor security and protection for workers displaced by economic forces, both foreign and domestic.

However, when we see that only 4 percent of our general economic concern lies in the foreign trade area, it is evident that 96 percent of dislocations and economic adjustment problems are attributable to internal dynamics of our economy—Government program changes, technology, or perhaps mismanagement.

In light of these developments, you suggest further that "it is appropriate to consider adjustment assistance in a broader context than that which prevailed when the Trade Expansion Act was enacted in 1962."

With that, I would like to heartily concur and identify myself because I think that is certainly basically true.

Now you also say on page 6:

> Most other advanced industrial nations relieve employment dislocations resulting from import competition in the framework of broader employment security. With one or two exceptions, they do not have focused trade adjustment assistance programs like ours.

Then you go on, on page 7, and say—and I think once again I would agree:

> To the extent that we and our major trading partners have effective trade adjustment assistance programs, the prospects for meaningful reductions in tariff and non-tariff barriers will be enhanced.

You continue:

> Perhaps if there was a consensus on this view it would be possible to establish some general international guidelines for countries which would help limit the transfer abroad of the costs of internal adjustment which currently occur through resort to restrictive trade measures.

Now I am taking this much time to suggest that I think we really are at the heart of the matter here and that really is the extent to which we should be considering the trade adjustment assistance program, as a totally integrated part of a general manpower development training and educational effort of massive proportions from our own National Government.

Now it seems to me that in the absence of the United States approaching its problems from this perspective in their totality, that when we deal in terms of international negotiation on trade matters, restrictions, quotas, and reciprocity in an effort to bring about a freer trading climate internationally, we are really working at a disadvantage if our internal adjustment mechanisms are not more efficient and more effective, since we won't have any political alternative to the protectionist pressures when we deal with it.

You cite, for example, the fact—and I think in certain cases this is true—on page 9, that "adjustment assistance can be an effective policy when used in conjunction with other available foreign and domestic economic policies."

Then you specifically cite the case of orderly marketing arrangements and you use as examples textiles and steel. Well, I wonder whether you would even need these restraints if you had the right kind of trigger mechanisms, the right kind of trade adjustment programs, but above all, the right kind of general manpower programs in this country that could be activated to deal with these situations.

These are also open ended, incidentally, when you talk about sharing the cost of these things, and it would be interesting when viewed how compatible and how consistent with free trade objectives they are. You know, it is like one man's loophole is another man's living.

Mr. SILBERMAN. I particularly like the analogy about "loopholes" and "living"; it seems to me quite appropriate.

Mr. CULVER. What I really am driving at in all this is the extent to which there is a general consensus and appreciation within the Labor Department as to who is primarily involved in this proliferation of programs, and who is responsible for the fundamental review of the adequacy and inadequacy of our total manpower programs. The fact

is that it doesn't matter whether a worker is unemployed because it is "the foreigners' fault" or whether it is because the guy running the place is just a poor manager or whether government changes under the space and defense procurement programs, but it does matter how we get all these dislocated workers new jobs.

I think the extent to which we try to make some of these distinctions, which are artificial in nature, is a public policy approach and attitude which is so fundamental in terms of our own national attitudes toward manpower problems generally. I just wonder if you would address yourself to this issue.

Mr. SILBERMAN. I would like to. It seems to me, Mr. Chairman, you put your finger on some of the most vexing problems which the executive branch is grappling with now in taking a hard look at adjustment assistance and its efficacy.

Let me see if I can reply. You said so much there that I am going to try to backtrack and make several points in response to your observations, the first of which is with respect to other countries.

One can make an argument, interestingly enough, that the fact that other countries for a large part don't have specific adjustment assistance programs to deal with imports gives them an advantage rather than a disadvantage in the trading area, and that is why a number of people have suggested a mutually interdependent assistance program.

That is to say, if somebody else knows that we have a very effective adjustment assistance program, it might be argued that they have greater pressure at the bargaining table and in international trade rather than less. So that point almost cuts both ways.

Mr. CULVER. Would Ricardo argue that way?

Mr. SILBERMAN. No; but any good negotiator would.

In other words, the point is that if you know the other fellow has somewhere to go, you are going to press him harder.

Mr. CULVER. If someone had somewhere to go and he were interested in a free trading environment in the world and thought it was in their self-interest to achieve that, he would be delighted to go.

Mr. SILBERMAN. Perhaps. Perhaps. An example might be the agricultural area where the Europeans have always argued pretty much they have nowhere to go with these small farmers. Well, maybe it would be much to our advantage if they had an effective adjustment assistance program in agriculture.

But let me point out another thing. It is awfully hard to make comparisons with other countries with respect to adjustment assistance or with respect to manpower policy, and the reason is that often countries which have what they consider a very sophisticated manpower policy are actually dealing with their entire economic policy as a part of manpower policy.

For instance, the Swedes, as an example, will talk about their manpower policy and their capacity to shift people around to deal with particular unemployment problems when in fact what they are doing is shifting their entire national resources around, and it is sort of swallowed up.

We don't have that kind of an economy, and I doubt if we would ever in the foreseeable future get to that kind of an economy, nor would we want to. Sweden has a much more centralized, much more

planned economy. We are so much bigger and so much more diverse, it is difficult to conceive of us getting into that kind of planned economy.

For that reason, those of us who have struggled with our manpower policy have been inclined to feel that we would be better advised to decentralize. And that, of course, is what we mean by manpower special revenue sharing.

We are not convinced that a national manpower policy on the Swedish model or some of the other models is useful in this country. But it is a very tough question.

Now that brings up another issue. I think you are absolutely right, personally, and let me say that my comments now are personal because, as you know, we are involved in an executive branch study on this, and therefore until we have come out with an administration position my remarks should not be regarded as the administration position.

Mr. Lynn can make whatever disavowals he wishes, and I leave it up to him.

But I personally think you are absolutely right to conclude that the kind of judicial or other distinctions which are set forth in the present adjustment assistance program are less than useful.

Of course, in the administration's proposed Trade Act of 1969 we came up with proposals to relax this concept of "major part" and the concept of tying adjustment assistance back to the second step, the step beyond to the tariff reduction.

But it may not follow from that that you want to merge all of the adjustment assistance because of imports into a broader general manpower policy: I say this because I am not sure of the answer yet, but it may not follow from that. It may suggest that what you want is a programmatic adjustment assistance program directed and targeted toward that unemployment or dislocation caused by imports, which is not inconsistent in concept with your other kinds of adjustment programs, or manpower programs, and which does not depend on some other kind of quasi-adjudicatory finding of a certain standard but rather is administered as many other programs are, but which nonetheless has a separate identity.

THE ADMINISTRATIVE NIGHTMARE

Mr. CULVER. On page 17 of your statement you say:

> An experimental system to help import-impacted workers obtain training is now in the final stages of planning. When it is operational, displaced workers will be allowed to choose their own courses at private or public training institutions. Federal payments will cover tuition and other expenses up to an appropriate limit.

It seems to me that you really are suggesting there that you are freeing the retraining qualifications or the training opportunities for those displaced as a result of import competition and you are leaving them with the initiative and with the wherewithal to go ahead and obtain the training.

Now, to me that smacks of something that could be administered generally to unemployment across the board. One of the things that keeps popping up here in the course of our hearings is the incredible proliferation of programs, the overlap, the duplication, the lack of coordination, in terms of the administration of our national manpower programs.

Fortunately, this is a general criticism that we all painfully know could be made in all areas of public policy, and is really in terms of the way that the Congress and the executive operate. But in the manpower field, I get the impression from our inquiry to date that we are spending a very significant amount of money, and spending the energies of a great amount of bureaucracy in the administration of ad hoc special programs in efforts to reach hard-core unemployed on the one hand or import unemployment on the other.

We seem to be going blissfully about our business, single minded, with the blinders on, right down the tunnel with our sign on the door. There does not seem to be the kind of cross-fertilization of participation and involvement in general standards and a simplification. I just get worn out reading the hurdles that were placed in the way of qualification, not by you or anyone here, under the Trade Expansion Act of 1962, and I honestly feel that those were intentionally imposed by the draftsmen because of their fear of the open-ended costs of trade adjustment assistance and the unknown policy implications of it. They were faced with the immediate political problem of getting through Congress a new negotiating authority. This was a sop to those that feared the consequences of these negotiations, but at the same time, I think, the draftsmen did their job all too well.

Mr. SILBERMAN. Absolutely.

Mr. CULVER. Not only in terms of just tying it up in redtape and bureaucratic obstacles, but even the substance at the end of the road was of such a relatively minimal kind that it really was not worth going over the hurdles to hit the final tape anyway.

Of course, as you all know, that has been our experience. If the name of the game is not deception but to meet the very real human and economic problems that we are concerned with, I think we have got to bite some tough bullets.

We have got to talk about what an effective manpower program really is going to cost. How are we going to administratively restructure ourselves in this area of public policy to deal with it in totality? And what kind of general standards will be needed so we stop making these meaningless distinctions?

Mr. SILBERMAN. Mr. Chairman, if I might stop you for a moment I think your observations are terribly perceptive concerning our programs. Indeed they represent a proliferation of separately identified programs, identified by the Congress largely because they represent various constituent groups and it is extraordinarily difficult to try to bring those manpower programs into the kind of structure that you have in mind.

We have been trying to decategorize in the manpower field for the last 3 years. I don't regard this as a partisan effort because the plans for the manpower reform were largely shaped and laid by the prior administration. We have sought to decategorize these programs generally, and to put them in one big group.

It seems to me you are right as rain as a general principle. The tough question when you come to adjustment assistance by reason of imports is this. You could conceive of spending perhaps a greater amount of money for individuals who are injured by reason of imports, forgetting the sophisticated ways in which you would identify those individuals. I am very much in agreement with you, those ways can

be simplified considerably and perhaps dealt with programmatically rather than through the adjudicatory framework.

But the question is, do you want to spend as much for individuals dislocated for any reason as you would for those dislocated because of imports? That is a tough question. It is a tough philosophic question.

It is also a very tough budgetary question because you may not as a matter of national policy want to spend the kind of money that you are talking about. Indeed, one of our problems is we don't know enough about the effectiveness of the manpower programs.

We are only now doing the really sophisticated kind of evaluation which will lead us to conclude as to which programs are effective and which are not. We have been spending an awful lot of money over the last 10 years and the cost-benefit return is difficult to demonstrate with confidence. Now that is why I suggest in our testimony—and we have not figured out the answer to that—that the trade adjustment and assistance has to be looked at in this broader package but I never went so far as to say we should not have an acceptable rate allocable adjustment concept. I suggested that we may learn certain things in the adjustment assistance program which then can be taken out and used nationally.

Now, there are some who might suggest that we would use that in somewhat of an experimental way. But by the same token of course you can learn things from the other parts of the manpower program which have implications for adjustment assistance.

You put your finger on what is the most difficult question because logically one can argue that you should not have any special program for those dislocated because of imports as opposed to all sorts of other factors in the economy.

I am inclined to think that those so dislocated may have a little bit greater claim than others for adjustment assistance because of the way we go about determining our policies for foreign trade.

But in any event, you run the risk if you put it in too broad a bag that it may not be a manageable program administratively or indeed, Mr. Chairman, taking off on your initial point politically.

Mr. CULVER. It seems to me that the overwhelming preponderance of current manpower programs administered by Labor and HEW are aimed at the unskilled or the hard-core unemployed. Isn't it also true that you cannot find openings for the unskilled unless there is adequate job mobility for those already employed and that we spend relatively very little in our manpower programs for that purpose? What can be done, for example, to improve this situation?

I think it is very true that the special interest lobbying constituents that come before the Congress, whether it represents the poverty program constituency or the trade adjustment problems or from whatever combination of sources, have periodically demonstrated enough clout to carve out a particular manpower program response to their unique situation as they define it.

My only point is that the cumulative consequence of this kind of legislating is really a terribly inefficient program with high costs program, and benefits that are highly dubious in terms of our track record of the qualitative analysis of which you also acknowledge. We in Con-

gress, as well as you in the executive, have a lot to find out before we can address ourselves to what the hard facts are in that regard.

But again, I think it gets us back to this point where you imply that the situation of the displaced workers as a result of trade negotiations is somehow greater or lesser than some other fellow that is in a soup line.

I don't know that I necessarily buy that. I think it is a natural responsibility to try to have opportunities for our citizens and not what is a question who bears the cost.

So here again I think we are driven back to the inescapable logic of the basis of our experience with manpower training programs in this country, and the fact that we are so late in starting any meaningful program in comparison with other western industrialized democracies.

We talk about priorities in Government spending and we talk about certain basic social premises upon which budgetary resources are allocated and what is the proper role of Government in some of these areas. These are very basic questions.

We spend a lot of money, but it is a question of how you carve up the pie. In the manpower field I think when you add up to adminstrative costs and program costs, we don't have to apologize to many people other than to how effective it is and then we have a lot of apologizing to do.

Mr. SILBERMAN. Well, for that matter it is difficult sometimes to see that certain other Western industrialized countries have been so tremendously effective in terms of manpower problems either.

I find, for one thing, that most of the Western European countries are in an entirely different position and have been for the last 15 years. They have a very tight labor market and they have a wonderful gimmick which provides them with cyclical cushioning.

They can bring up the unskilled workers from Italy, Yugoslavia, Spain, and so forth, and when their economy turns down, they send them home. We cannot do that in this country and therefore we don't have that very convenient expanding or contracting work force almost as a matter of course.

We also have certain other unique problems but that is one of the most significant.

The other point I make is I am not sure that the impediment toward substantial expenditure in the manpower area now, the main impediment is one of philosophic evaluation of priorities so much as the real concern on the part of us who have been administering these programs that we have to begin to show some payoff.

We have to begin to show some payoff in some area in order to justify the over $4 billion we are presently spending. We are struggling to see that. It may be there are some who suggest that much of our institutional training which is quasi-classroom training has been considerably less effective than the on-the-job training.

Now that is counter to what the main body of thought was back in 1962. These manpower programs started in 1962. Let me go back to a point you made a moment ago concerning the disadvantaged. The programs were originally directed toward those who were unemployed by reason of automation. These were people with an attachment to the work force.

In 1964 with the war on poverty, there was a shift toward the disadvantaged. I think you were implicitly making a point, which is a very good one, to the effect that to a certain extent our employment services throughout the country, and placements under them have deteriorated considerably over the last 5 or 6 years as the war on poverty developed. As they made specific efforts to place the disadvantaged, they began to lose their total placements.

THE NEED FOR AN EFFECTIVE JOB PLACEMENT SERVICE

Mr. CULVER. The thing that concerns me is that with all due recognition of your point as far as the difficulties of comparison with the Western European situation in terms of the strength of their economy and their availability to this work force for these more menial jobs, is that in this country we have very high job vacancy side by side with high unemployment. How do we bridge that gap?

The free market has not been able to do it in this high revolutionary technological society.

Mr. SILBERMAN. One of the points I did make, the interesting point when we talk to a nation—it would be best not to identify—we asked them, "How do you fill these low-rated jobs?" And their answer was, "Well, people from X country fill those jobs, nobody from our country will fill them. We bring those people up at a lower wage rate and they fill these jobs and when the economy constricts, we just knock off those jobs and send them back."

Well, we don't have that kind of system, we don't value some Americans less highly than other Americans and it creates considerably less flexibility with respect to the manpower policy. That is one reason you see those vacancies. To a certain extent, there are jobs people don't want to take any more—and there are a certain number of income maintenance programs which provide them with sufficient income so they won't take those jobs.

That is part of the whole welfare debate and it is a difficult question. You have a minimum wage bill on the floor of the House today, not just title III, but the whole minimum wage bill. You know, the administration's position that when you are desperately trying to keep inflation down so as to keep our products more competitive with those other nations it is folly to raise the minimum wage up as sharply and as highly and to try to extend to everybody universal coverage at this time.

Now, the Europeans have a lot of different minimum wage laws with a lot of differentials. For instance, almost all the Western European nations have a youth differential, as does Israel. Now, that provides some flexibility in the labor market where the people can come in at lower rated jobs.

Mr. CULVER. We have the Erlenborn substitute today. We are going to be voting on that in a few minutes.

Mr. Steele.

THE CERTIFICATION PROCESS

Mr. STEELE. Thank you, Mr. Chairman. In view of the pending vote, I just have one question for Mr. Lynn. You mention on page 10 of your testimony that a total of 20 firms have applied for certification

of eligibility and of these firms 18 have been certified as eligible to apply. Within what time period is that? What are the dates of that?

Mr. LYNN. Which dates do you want, sir?

Mr. STEELE. You say to date the total of 20 firms have applied. Starting with what date?

Mr. LYNN. I will have to defer to Mr. Gray, the director of the Office of Trade Adjustment Assistance. In other words, you are trying to see what span of time?

Mr. STEELE. Yes.

Mr. LYNN. Well, it is over a period of the last 2 years approximately.

Mr. STEELE. Two years?

Mr. LYNN. Yes.

Mr. STEELE. Well, my question then is what kind of impact in that? How serious a program is this? In 2 years 18 firms have become eligible. What kind of national impact on the national problem does this have and what would we have to do in the next 2 years if we are serious?

I mean surely 18 firms and the kind of assistance you list on the back are negligible. What do we have to do to have an impact on the national problem? Is there an assessment of this? Is there an estimate? Do we know that an effective serious program would cost?

Mr. LYNN. Mr. Steele, Mr. Silberman has made the statement that he was expressing personal views and I will do the same although part of it ties into administration programs. As I have reviewed cases that have come to me in this program, I am struck time and time again with the fact that the relief is really coming too late.

By the time you get these companies there is very limited assistance you can give. By the time we get companies, they are often so far gone that you are really taking quite large risks in trying to help at all.

I would foresee that if the program were pursued more aggressively in the private sector, we might also get companies who really don't need the help and might be looking to this program as a nice way of financing some plans they might have.

But the thing that does strike me is we need to back up in the cycle substantially. I indicated in my testimony that we are putting in place right now in the Department much better mechanisms than we have ever had before to try to assess the competitive position of U.S. industry in a—to use the economist's expression—macrosense overall, and as to specific kinds of industries that we consider as being extremely important to our country.

Now they can be important from the standpoint of national security, they can certainly be important from the standpoint of the total impact they have in the economy in that there are many jobs involved, they can be important because they offer the seed for a potentially very strong market.

My feeling is that if industry and Government cooperate to look down the pike further, and see what is happening by way of competitive advantage and who is going to be producing what 3, 5, 10 years from now, then good management at the very least will respond a lot more effectively than perhaps they have responded in the past. They can then adjust their own production and their own businesses to the realities that they are going to face 3 to 5 years down the pike.

I think this is the place where we should be thinking hard about what to do. Take a look at retraining which fits this very, very well, One of the questions that Secretary Peterson has been spending a good deal of time on in the limited time that he has been Secretary of Commerce has been what can be done to have managements do a better job of training people on their work force for the jobs of tomorrow within that company.

One of the elements we see is some reluctance, in certain sectors more than others, to accept technological change which results in higher productivity and keeps us on the competitive edge ahead of our foreign competitors. What is the reason?

In many cases, it is because it is a very sudden change for that worker to be faced on a Monday morning or a Wednesday with notification that a machine may replace him. So one of the things we want to spend some real time on is getting management thinking in terms of its own future, its own products, its own services, 3, 5, 8, 10 years ahead and working cooperatively with the unions and with the employees to train employees for those jobs.

If I can "pie-in-the-sky" for a minute, we would hope that those new jobs require higher skills and that there will be ready acceptance of them because the individual worker will get a bigger slice of the pie.

Planning, thinking ahead, is far more important than trying to adjust.

Mr. STEELE. Thank you.

Mr. CULVER. The subcommittee will recess for about 10 minutes.

(Whereupon, a brief recess was taken.)

INTERAGENCY REVIEW OF TRADE ADJUSTMENT ASSISTANCE

Mr. CULVER. The subcommittee will come to order.

Mr. Silberman, I understand that you are the director of the interdepartmental task force that is charged with undertaking a major study of adjustment assistance. I wonder whether this study has been completed or when do you anticipate its completion.

Mr. SILBERMAN. Well, first, Mr. Chairman, I am the chairman of that committee, not the director, which implies a much looser ability to direct, as my colleague suggests.

Furthermore, since it is in fact an executive branch internal study, I prefer it if the chariman would go along with me not to discuss any internal administration deadlines or, indeed, the progress of the committee other than to say that we have been working now for some 3 months on the subject and I can see that it will at least take that much longer before we have anything that——

Mr. CULVER. Do you know what plans, if any, have been made tc make the study available to Congress?

Mr. SILBERMAN. You mean when it is completed?

Mr. CULVER. Yes, the study.

Mr. SILBERMAN. No; it is prepared for the President, and I suppose it would be up to the President to determine how he would want to use that.

As Jim Lynn reminds me, there are a number of different studies that focus on the trade area that are all going on together and which

have been sponsored by the CIEP mechanism, both by Peter Peterson while he was Assistant to the President for International Economic Affairs, and now continued by Peter Flanigan.

CONTINUING EDUCATION AND TRAINING

Mr. CULVER. With regard to your suggestion for a pilot program for having the various funds being made available on an individual basis for training and retraining, what about making continuing training and education available to all who can use it, including young people, women, and blacks throughout their careers so they can constantly upgrade their skills and keep abreast of changing technology and in job requirements?

Mr. SILBERMAN. Well, that is an interesting point. The French, as you may know, are doing something with this. There they believe that they should equalize educational opportunities as we do, and they think that it might be very useful for a good part of the work force to have a retraining opportunity every once in a while. I would certainly not be adverse to that idea if we could first show through some experiments that it would be useful.

One of the things we found about the manpower program, one generalization I think I am fairly willing to make, is that the on-the-job training that is done by the employer, whether financed in some fashion by the Government or directed in some fashion by the Government, or not, seems to be much more effective than the institutional training. That may not be surprising when we consider the problems we have in our education system.

We are looking very hard now at the effectiveness of our institutional training. If institutional training cannot be effective, then it might not be wise to put a great deal of resources into some kind of periodic institutional training.

A lot of it has to do with motivation, as I am sure you are quite well aware, Mr. Chairman. One could suggest or argue that there are in our society various different training mechanisms, or various institutional training mechanisms for somebody who wants to upgrade. The real problem is how you induce it or push it along. If people don't really have the motivation to go in there and get the training, is there any way the Government can usefully provide it or push it along? It is a very difficult question.

THE ROLE OF THE LABOR DEPARTMENT

Mr. CULVER. Mr. Silberman, we have had testimony periodically to the effect that the Secretary of Labor does not now participate in the higher councils of government where national economic policy is actually decided, and, in effect, that the Labor Department input is limited to statistics for decisions that are taken by the Treasury and the White House.

Now, I don't mean to have this be an awkward question, but what do you think can and should be done to beef up the representation of legitimate manpower interests or worker interests in the making and the implementation of our economic policy?

Mr. SILBERMAN. Well, I am not sure about the last part of your question Mr. Chairman, but I certainly would be unwilling to accept the premise. The Secretary of Labor is a part of the Domestic Council and is privy to all of the major economic policy decisions of Government. I recall this is something that came up in the publicity that came out of the announcement of the freeze and the so-called meeting at Camp David where neither the Secretary of Labor nor the Secretary of Commerce was present. I think much too much is made of that as having any real significance in terms of development of economic policy. Interestingly enough, the President has asked the Secretary of Labor to develop a very sophisticated mechanism for measuring the manpower impact of a host of governmental initiatives. In other words, we are now being charged with measuring the manpower impact of initiatives which have nothing whatever to do with the Department of Labor, and I think that is the kind of thing you are interested in.

Mr. CULVER. Would this involve a followup reporting on the job placements of those getting job assistance, too?

Mr. SILBERMAN. The point that I was discussing is not the same as the one you just made. The Department of Labor should assume the responsibility and is assuming the responsibility of making real efforts to determine the effectiveness of any of our training and manpower policies. Adjustment assistance by reason of imports is one of those and we are trying to follow that up now. We have a study going now to see what the effectiveness of the program is and how placements flow from it.

THE ADEQUACY OF INTERDEPARTMENTAL COORDINATION

Mr. CULVER. Now, I realize that in the 10-year history of our trade adjustment assistance program we have had for the reasons outlined a great deal of difficulty administratively and bureaucratically with regard to the necessary coordination to make the program work properly.

How adequate would you say present coordination in the Federal Government with regard to the administration and the implementation of trade adjustment assistance is currently?

Mr. SILBERMAN. Well, let me answer that somewhat indirectly by suggesting that the kinds of problems there are with respect to adjustment assistance to businesses or industries and the kinds that are involved with adjustment assistance to workers are sharply different. Jim Lynn and I have recognized this in the last 3 months. As he put it a moment ago, when that firm comes to the Department of Commerce it presents quite a different problem than its workers do, and therefore those who suggest that adjustment assistance should in some way be packaged under one agency, I believe—and I think Jim would also believe—are wrong. There are sharply different kinds of questions.

As far as the interrelationship of industry assistance and worker assistance, I don't perceive that there have been any problems in terms of coordination.

Now, in terms of the Tariff Commission, it is a whole different issue. I am personally of a view that, as I suggested in my answer to one of

your earlier questions, this quasi-adjudicatory procedure, while it may make a great deal of sense with respect to an escape clause action, makes very little sense with respect to adjustment assistance either for workers or firms, and they ought to be dealt with, as I suggested, on a programmatic basis rather than having to go through this quasi-adjudicatory procedure.

In that respect, the system inherently I suppose does not have the kinds of coordination that I think might be needed. I would defer to Jim on the question of the range of possible new kinds of adjustment assistance which could be developed for industries and which might appropriately involve coordination with other agencies, either Treasury with the tax side or Justice Department with other kinds of questions. That might suggest that the continuing need for a CIEP mechanism in the Government to not only oversee but also manage our general trade responses.

There are problems which develop with respect to certain industries and in our judgment may require a type of response which goes beyond adjustment assistance and includes the development of an orderly marketing mechanism. The marketing mechanism and the adjustment assistance processes have to be integrated in some fashion. The coordinating mechanism may be designed so that for a certain limited time both the orderly marketing arrangement and the adjustment assistance are operating concurrently. Both systems are linked together and both would end once their joint contribution has eliminated the problem.

I am inclined to feel that CIEP performs the integrating role at present and could perform it and would perform it under any new structure. I have taken the opportunity to pointedly disagree with those who think we need one agency that would dispense all kinds of adjustment assistance. When I started looking at this that was my inclination, and I rapidly came to the view that it was an unsound approach partly because of the reasons that you, yourself, pointed to: that in the worker side we are talking about a national manpower policy. We know that if we end up with different mechanisms trying to develop services in the manpower area we are really going to get bollixed up.

Jim, would you like to add to that?

Mr. LYNN. I agree totally. I think you would have just another splintering of decisionmaking mechanisms from other departmental resources which could fit very well into the concept of early assistance and broader assistance than is contemplated by the Trade Expansion Act.

As I indicated in my testimony, we are trying our best within the Department to coordinate the efforts of the Office of Trade Adjustment Assistance with the Economic Development Administration which has certain authority to go into lagging areas or areas where there has been a sudden rise in unemployment. EDA provides help in the form of technical assistance, help in the form of public works grants, industrial parks. This approach allows us to diversify the industrial base of a single industry town.

I mentioned, for example, our efforts at early warning competitive assessment. This would create either duplication or need for coordination of yet another agency with other agencies in the Government.

Mr. CULVER. I think we can shortcut this, sir. Are you satisfied then that the coordination and the administration of trade adjustment assistance between all the related departments, the Small Business Administration, Commerce, and Labor, is all working like a symphony?

Mr. SILBERMAN. I didn't hear you.

Mr. CULVER. Are you satisfied that the coordination and administration are working like a symphony?

Mr. SILBERMAN. I am not aware of any programs that work like a symphony.

Mr. CULVER. I am just curious. I have never encountered anything that is more like a bureaucratic nightmare than the trade adjustment assistance program. You didn't draft it, you inherited it. I know you are working hard with the restrictions you have outlined to accomplish something.

Now I am asking you the simple question: How beautifully organized and synchronized do you think you have been ? Have you been able to relax things? You have enough political clout to push here. relax there. You are putting a little more muscle into it. You want to improve on the track record that has gone before. Fine. In the best of all possible worlds, how would you take this scaffolding and improve it?

You know, you can sit here and talk for a half hour how great it is going. It isn't. You know we are taking a look at it. How can we make it more efficient? It was designed to be unworkable. It has proven to be unworkable. What are we going to do to make it workable other than have an imaginative beaucratic play with it. How can we restructure it to make it work on paper, at least? That is what I am trying to get at. I know you are trying. I know you are meeting regularly. I have been through all this, it is endless. What can we do in the real world to improve this? What kind of recommendations could you make?

RECOMMENDATIONS TO IMPROVE INTERDEPARTMENTAL COORDINATION

Mr. SILBERMAN. Of course, that goes to the thrust of what our committee is dealing with. As I have indicated to you, we are not prepared to come out with a final recommendation on that.

However, I can say one thing: I think the coordination within the executive branch is all right even today, and I exclude the Tariff Commission from that as a sort of quasi-judicial agency. I would certainly suggest, as I thought I did, that a programmatic approach to adjustment assistance on both the industry side administered by the Department of Commerce, and on the workers side by the Department of Labor, would be a much more simplified approach, leaving to, let's say, the Tariff Commission the escape clause responsibility where it perhaps is not totally undesirable to have the system be a little bit more complex than it would be with respect to adjustment assistance.

So one could suggest a simplifying of that considerably if you took the initial decision as to whether adjustment assistance should be provided and what kind and to what people, and dealt with it on a programmatic basis and gave it to the Secretary of Labor and Secretary of Commerce.

You recall the proposed Trade Act of 1969 suggested that this authority be given to the President and it was implicit that it would

be thereby delegated. So if you had adjustment assistance given to the Department of Commerce and the Department of Labor, you would have the simple arrangements which would not involve the kind of complexities that your committee has plowed through.

BUSINESS-LABOR-GOVERNMENT COOPERATION

Mr. CULVER. In speaking to Europeans about the experience under the Common Market, and the preliminary discussions in the OECD, one of the striking things is that they really don't try to approach this problem as balanced and as we do in terms of relief both on the one hand of industries and workers on the other.

The thrust and the emphasis is almost exclusively on the worker, and one of the arguments for that approach, of course, is essentially just again not trying to make a lot of these distinctions that are so difficult to make in terms of why some one is unemployed. They are just unemployed and there they are and they need a job and let's train them and put them to work.

Once you get into that managerial side of adjustment problems, the problems of making distinctions in terms of what are the causes, arise. This is in addition to the problems of the traditional philosophy of our free enterprise system.

Now I was taken by the very obvious need to have a triggering mechanism by way of early warning system that is much more satisfactory than the one we have so that when the damage is not so far gone and the condition so aggravated that you can't really bail the thing out and the political response is so desperate that it goes the protectionist route. The thing that troubles me is that you can talk on the one hand about the desirability of an early warning system, but we must recognize that there are problems in the nature of the relationship within our political system between government on the one hand, and the private sector on the other, and the relationship in terms of business within a free enterprise community, in terms of disclosure of its competitive situation and information, and so forth. How sanguine are you that we are going to get that kind of cooperation, the kind of information gathering, the kind of initiatives from both Government and the private sector to come together, not to mention labor and management coming together, and not to mention the communities involved, to work out an early warning system.

Mr. SILBERMAN. Let me just start the answer to that question and then turn it over to Under Secretary Lynn.

I don't think it is true that the European countries emphasize adjustment assistance only to workers. Primarily, I say. Primarily, I am not sure that is true at all. It depends on what you call adjustment assistance. That is what I was alluding to earlier when I was saying the problem is sharply different with respect to industry and firms than it is with workers.

For instance, most European countries involve themselves in a much more decided way in attempts to accelerate and enhance the competitive positions of certain industries within those countries. Now one can argue that is a form of adjustment assistance or it slides into that. Mr. Lynn, talk about that.

Mr. CULVER. There is a tendency to always talk about Japan and its unique government-business relationship. The thing that concerns me is that we talk about the business and government in our national tradition as being essentially almost an adversary relationship. I do not buy that. I think Government is extremely responsive to the interests of business, but the trouble is that the energies and resources and finances of the congressional response to this interest and this measure, unlike some of our international competition today, has been essentially regressive in nature, it has been negative, it has been looking back. I mean it is a form of trade adjustment assistance to have tariffs and quotas. It does not happen to be a progressive enlightened kind of assistance that presents market opportunities with Government and business working together to exploit future market opportunities. Now that is a very progressive and forward-looking type of liaison. I think it is wrong to say that we just wring our hands and weep, we just cannot compete, Government does not understand our problem. The problem is that Government and business are not working together in a constructive way today to make us internationally competitive. Government and business are working together, but it is just that our resources and our energies and our response are more often than not regressive in their nature and make us less competitive in a real sense rather than more competitive.

Mr. LYNN. If I might, Mr. Chairman, on the point as to whether or not, given our tradition of free enterprise in this country with a certain amount of independence, we can look forward to cooperation between Government and business on the early warning type of thing that we talked about.

Secretary Peterson has explained this new approach within the Department both in public speeches and in smaller groups and I have yet to hear the first criticism of the proposal. It is being welcomed. The early warning system requires a pretty sophisticated approach and also a good deal of cooperation because you find that you do need certain things that only the Government can really collect information on, and you need other things that industry will always know a lot more about than we know, particularly if you focus industry's attention on finding it out.

Let me use two examples. With regard to what the incentives are, progressive as they may be, offered by other countries, I am inclined to think that at least a good part of that work can be done through the Government side. Just what are the hidden incentives and subsidies as well as the well known ones that are being made available that do upset the competitive balance?

On the other hand, when it comes to who is doing what with the latest process of making steel or making a television tube, ordinarily the industry, if they really focus on it, in most cases will have a lot more to offer than what we might be able to learn through our own Government sources abroad.

I am very hopeful that we will see the statistical gathering side, and the other efforts the Government can make, being much more focused on things that make sense rather than just huge books of statistics that nobody bothers to read except maybe 25 economists who happen to be interested in that subject.

Enough on that point.

By way of the industry-Government relation being regressive, as opposed to progressive, I agree with you that lots more needs to be done. I would say that such things as the President's message on technology which, as far as I am aware, is the first one that has ever gone to the Hill, is a sign that we feel very strongly that technological innovation is absolutely crucial to this country not only for achieving the social objectives for our own people, but for staying competitive internationally.

The job development tax credit I think is a forward-looking move. It is saying to industry: "All right, here is an incentive for you to put in the tools that you need to solve competitive problems." There is a whole list of things that we think are progressive looking.

I think the early warning system is another example of that.

One of the basic problems we have found, as you explore a number of the things that are done abroad, is that there are bad sides as well as good sides to what they are doing. When one country or two countries decide to give a new incentive to their industry, whether it is a Canadian R. & D. additional incentive, or a German incentive to move people out of the coal mines into something else, that upsets the competitive balance and you ask yourself whether or not this should become a race much like the race with regard to export credit.

Ultimately, who wins? There is a great need, it seems to me, for international understanding that we should afford only those incentives that maintain the best of what we want to do and not bring in just a horserace that is costing the taxpayers of all the world extra money.

Mr. CULVER. I wonder, Mr. Lynn, if we could have a copy of the proposed regulations and the final regulations, when they are issued, that you make reference to on page 10.

Mr. LYNN. Of course. We will submit immediately the proposed regulations. As I indicated, we expect the final regulations this month and we will also send them to you immediately.[5]

LOAN TERMS TO BUSINESS

Mr. CULVER. Thank you.

I wondered about the loan terms that you offer injured firms. I am interested in the terms of financing since they are, I understand, much less favorable than under our foreign aid program.

As I understand it, no funds are made available for paying off current debts. Would you favor some changes here? What kind of flexibility do you enjoy within the administrative regulations and statutes that you are currently operating under to relax the terms for financial assistance?

Mr. LYNN. Well, with regard to our policy decision that we will not put taxpayers money in simply to pay off existing debts, that was one of those policy decisions that I said we had to wrestle with early on in the program, and we concluded that taking the intent of that statute, as uncertain as it was, that that was not a thing that we ought to do.

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[5] See Department of Commerce Adjustment Assistance Regulations on page 697 of the appendix.

I think some arguments can be made both ways as to whether that would be a useful thing to change. One of the indications that we have that an adjustment proposition is viable is the willingness of the shareholders to stay in the deal, to put in additional equity if they are able to do so, and the willingness of the bankers and other creditors that we are trying to help, too. I don't think that is a very clear-cut thing.

Now on the terms being more or less favorable than what is given to AID, I think what I would do is ask Mr. Gray simply to describe the terms of a couple of the loans that we have made, if I might.

STATEMENT OF ANDREW L. GRAY, DIRECTOR, OFFICE OF TRADE ADJUSTMENT ASSISTANCE, DEPARTMENT OF LABOR

Mr. GRAY. Thank you.

The maximum term is 25 years which is quite substantially beyond not only what the commercial bank would do, but what any private institutional lender will do. The interest rate, it is true, on a direct loan is fixed by statute and bound to a rate announced by the Secretary of the Treasury annually. This rate is substantially under the rate for triple-A bonds. On a typical transaction which we are consummating, the Department will make a loan of more than 20 years, the interest rate will be, as I say substantially below what the bond market would charge even a prime risk, and the manner in which the loan can be designed can give rise to substantial financial leverage.

That is to say, the Government dollar put in in trade adjustment may induce other private creditors pursuant to the terms of the transaction to contribute let's say $2 or even $3 of additional funds for every trade adjustment dollar disbursed. This is a prime consideration. We are looking for ways to maximize the leverage and impact of the trade adjustment dollar.

The terms by which a Government loan is to be subordinated of course are very delicate, they have to be worked out with due regard to protect the Government's position as well as to retain a required leverage.

AN EARLY WARNING SYSTEM

Mr. CULVER. Mr. Lynn, one of the areas that we are particularly concerned about and that you have made passing reference to is the need for an early warning system and how it should work.

Could you outline for us some specific ideas on how this might operate?

Mr. LYNN. Let me say at the outset, Mr. Chairman, I have no hesitancy to discuss this whatsoever. Quite apart from the work being done elsewhere, Secretary Peterson and I feel very strongly that this is a proper responsibility of the Department of Commerce that should be done in any event, because the utility of early warning is not limited to this area.

It seems to us that the kind of information that we intend gathering has significance in many, many other areas quite apart from those areas of industry that may be import-impacted.

What we have in mind is putting together a small team of people, and we are in the process of doing that right now within the Depart-

ment of Commerce in the Office of the Secretary, because we intend relying on other parts of the Department and in fact on people from other agencies to supply a good part of our input.

This group will have the responsibility, as I say, of doing a much better job than we have done before as a government in trying to assess what is happening to us in major areas of competitiveness. The kinds of studies on a macro basis that they will do will be directed to such things as better opportunities for productivity increases generally.

Are the productivity figures that we are getting really distorted in various ways? What is the trend? What are the patterns in that area? This could be extremely important as to the policies of this country on appropriate incentives for R. & D. and the like.

Another area that we think really has not had enough attention is the effects of licensing by U.S. companies abroad, and information as to job import effects of that licensing. We think we have pretty good information but we need a lot better information. Going on from that, we see a great need to do a better job of identifying industries that are important to us.

As I said, for many different reasons they can be important to us. We should see how those industries look for the future both from the standpoint of identifying whether there are particular policies of the Government that stand in the way of their development, or from the standpoint of things the Government might do. At that point in time, it would become an interagency matter. We would have been the fact gatherers that would be of great utility, we think, to the overall administration study of those problems.

Moving internationally, we feel we really don't have good data for example, at this moment with regard to the incentives offered by other countries, and we think this is a way of getting a true handle on that.

The other area I think we have to take a long-term look at is technology. Who is moving where, how fast? Where are the Japanese going next with regard to their next competitive moves? What is the Common Market doing to develop their own computer technology? Where does this country stand with regard to its aircraft industry?

Now, when I mention things like the aircraft industry, it shows how important it is that this group work effectively with other areas of Government because in many of those areas they have far more expertise than we do. This is the kind of background data we have never had before. Government, as I have seen it in the 3 years I have been here, seems to take an awful lot of time in fighting the present fires. We don't go far enough to say this could be a problem 5 years from now or an opportunity 5 years from now as shown by the facts we have gathered now.

Let me give a very small example of that. Take a look at the impact of imports. Most of the time there is not a tremendous stir with regard to it until the impact is actually felt in the United States. What would the international bargaining climate be if you were to know well in advance that countries of the world are tooling up with this country in mind as the primary market for those particular products, and were able at least to show them hard information as to what our market can stand over a given period? Even knowledge at this point could be important to their decision. This is the type of thing we intend to get into.

THE ROLE OF TRADE ASSOCIATIONS

Mr. CULVER. What about the role within our domestic economy of the private trade associations? It seems to me that they have the responsibility as well as the opportunity to assist in the adjustment process. I have been involved in political life long enough to know that it is a little unrealistic to think that they are going to be suggesting ways to move into competitive situations if it represents a threat to the status quo. In Europe, it seems to me that they have been able to at least stimulate a greater degree of awareness among private trade associations that their activities should be geared more toward this futuristic look that you are talking about so as to anticipate necessary adjustments.

Could you comment on what kind of relationship and cooperation that you think you have or could have by way of assistance in this effort from the private trade associations?

Mr. LYNN. Yes; it seems to me very often—well, in fact most of the time—the trade association, as it must, reflects the views of the members of that association. One of the handicaps they can have from time to time is where there is a wide range of views. It is extremely difficult to do anything except obtain a middle of the road consensus. My own feeling is as the companies become more aware of the opportunities in these areas it will enable the trade association to be a lot more responsive.

Let me give you a couple of examples where I think trade associations can be extremely useful and where some work is going on now with some of the trade associations.

I mentioned in my testimony the experimental technology program that we have requested to be funded in fiscal year 1973.

You mentioned a little earlier driving themselves out of business in the sense that the industries will move to other businesses, But I am not prepared in many of those industries to give up the ghost yet. I am inclined to think that with some imaginative effort toward new technology that those are industries which as a matter of fact can stay very much alive and even expand. We have seen some indication of this in the electronics field. Calculators are probably the most recent best example in this regard, where with heavy doses of hard work on productivity and technology, the U.S. companies now are producing calculators at prices well under what the foreign competition was doing.

Now, there are circumstances where an industry is too fragmented to ask any one company to bear the entire burden of a particular research project which involves a substantial risk, that is, you could put a lot of money into it and all you would have to show for it is reduced earnings per share in the year ahead. But a trade association can help us in our experimental technology program and put together a consortium of companies that will put in substantial funding for the effort to come up with that better mousetrap that will help them with the competition.

I think that is a very useful thing the trade associations can do.

I think also if the trade associations have a better feeling as to the kind of information we want they will give us a better response in getting that information.

DATA NEEDS

Mr. CULVER. With regard to information, the other repeated problem that has been posed here in the course of the hearings has been the difficulty of certain sectors of our economy to get information they feel they must have from government sources, from the Department of Labor and the Department of Commerce. We hear this complaint from organized labor, and we hear it from the business community. We hear it not as a current partisan criticism at all, but as a recognized continuing problem in terms of the adequacy of the information gathering service and of our national government in some of these trade areas and unemployment areas.

Does the administration have the statistics which show the effect of imports on employment? Does the administration have the statistics with regard to the impact multinational corporations and so forth, which is of pressing importance in the current debate? Do we have the kind of competitive cost analysis to measure the cost of trade adjustment assistance versus import restrictions?

What kind of facts are we operating from?

Mr. SILBERMAN. The last point, Mr. Chairman, the cost-benefit analysis is one of the most difficult problems we face. We have been working on that. Everyone tends to assume that the cost of various adjustment mechanisms can not possibly be as expensive as the indirect cost to the country of protective arrangements which will stifle trade but it would be very difficult to get a specific handle on that and we are working on that now as part of our study.

With respect to employment statistics, the impact on employment of imports, there is an article which I commend to you written by George Hildebrand, who was our Deputy Under Secretary of Labor for International Labor Affairs which I would suggest be put in the record which deals with the problem in trying to calculate the amount of employment theoretically lost by imports.

I have heard about the half million jobs, and George Hildebrand is an economist, and refers to the 700,000 jobs which is a phantom figure and because in fact it is a phantom figure based on projections it is very difficult to come up with any hard statistical data which will withstand rigorous analysis.

I would like to put that article in the record, with your leave, and I think it may help to clarify that.[6]

Mr. CULVER. Without objection, so ordered.

Mr. SILBERMAN. Let me go on to say that we recognize the great importance of getting better statistical data on this subject. We have a computer study by the Bureau of Labor Statistics which is underway now to collate import trends and employment trends and try to quickly identify situations where imports are up and employment down on an absolute or relative basis. We are hoping when we get that in better shape we will be able to feed that into the early warning system the Department of Commerce is developing.

We also have a number of industry studies with the profile of the labor force, geographical distribution and productivity changes, certain basic trends, and we are working on that now.

[6] See George H. Hildebrand, "Unions, Devaluation and Foreign Trade" on page 705 of the appendix.

Mr. CULVER. What pressure are you getting from the private sector for statistical data and information that you just are not able to give them currently?

Mr. SILBERMAN. Well, frankly, as regards this material, the pressure for it has been generated by the administration with an awareness of the same kinds of things you are just talking about.

We just don't know enough about the actual facts as to support or rebut certain of the contentions that are loosely thrown around as to the impact.

On the other hand, I might say that with respect to the statistical programs of the Bureau as with respect to so many programs in the Government, often the biggest problem is to get rid of some outmoded ones. It is a service organization, and once they provide statistics for a certain group, then people feel they are entitled to that from now to doomsday and it is sometimes difficult to shift your resources into new areas of need.

I am sure you are aware of that, Mr. Chairman, as endemic with the Government as a whole.

Mr. CULVER. Mr. Lynn.

Mr. LYNN. Mr. Chairman, I think it would be appropriate to put into the record, or at least acknowledge in the record at this point the efforts that the administration through the OMB studies conducted by Mr. Shiskin is trying to do on the statistical situation generally. Pursuant to their efforts and their urging for example, we have combined a number of the programs in our Department. We recently combined the Census Bureau and Office of Business Economics, plus some functions of the Bureau of Domestic Commerce and the Bureau of International Commerce, into a new Administration in the Department which we find is having quite an impact in coordinating those called SESA—the Social and Economic Statistics Administration.

I should say, secondly, that the competitive assessment office that I am talking about is intended as a very major part of its effort to obtain those statistics that we need the most for the particular area that you are talking about today.

There is not any doubt that we can do a better job with regard to statistics and, very frankly, that is one of the reasons why the budget that we have submitted this year has appreciable increases in it to get better data than we have now.

I have to certainly add to what Under Secretary Silberman said that the greatest pressure for these statistics that I feel at the moment is from Secretary Peterson. I am sure industry also shows the need but believe me, my Secretary wants a lot better data than we have been getting to date.

Mr. SILBERMAN. I might add, Mr. Chairman, we have requested an extra million dollars for funding statistical programs dealing with the employment impact of multinational corporations, and also adjustment assistance. This is for fiscal 1973.

Mr. LYNN. On multinationals, Mr. Chairman, I might add that we have done a couple of studies that take us a little way but not a long way toward getting a better handle on the importance of multinationals as to exports and imports. Our final study in this regard, which was the biggest one and based on most recent statistics, is expected to be fin-

ished in the very near future, within the next month or two, and we are hopeful that will help.

I will say that going back and reading some of the testimony in the area of trying to predict the job losses concerned, for example, the testimony of then Secretary Shultz before the House committee really leaves one with a very strong impression that this has to be a very theoretical exercise. The models have a lot of assumptions in them, no matter how you try to do the job, but I think, as Secretary Silberman has said, we are trying our best to get a better handle on that.

THE JOB INFORMATION AND PLACEMENT SYSTEM

Mr. CULVER. One of the areas of purported deficiency in terms of matching the unemployed with job opportunities is the result of the shortcomings currently in the dictionary of job skills that the Labor Department has responsibility of maintaining.

Could you both comment on the status and the effectiveness of the job information and placement system generally, and what are your recommendations for making this system more effective?

Mr. SILBERMAN. We have been devoting a great deal of effort and resources to the effort of the job banks. That was one of the first things the Department of Labor started in this administration as an institutional device to expedite the matching of the supply and the demand side of the labor market.

We have also coupled that with a computer program and all the Employment Service Offices to make the job bank operate more effectively and this will have an impact unquestionably.

I know from the chairman's initial remarks that there is somewhat of a feeling that there are these unemployed people and these open jobs and it is just a question of somehow mechanically putting them together. If we could do that, we could have a tremendous impact on our unemployment. It is true that we can have some impact through a more effective job matching technique and we are just spending a great deal of money and a great deal of time trying to do that.

I would caution the chairman that the problem is not as simple as conceptually——

Mr. CULVER. Mr. Silberman, I have lived through a lot of problems in Government that are simple so I have no utopian ideas about how simple this is going to be.

Dealing with Congress is a little harder, and you even have suggested to me some of the difficulties. All I want to say is that we had the Chamber of Commerce in here and they talked about one specific improvement, and that is keeping the dictionary of job skills in some up-to-date looseleaf form. Are they being revised and being brought up to date?

Mr. SILBERMAN. They are being revised and brought up to date right now.

Mr. CULVER. Good. That is being done.

Mr. SILBERMAN. Yes.

MODIFICATION OF ANTITRUST POLICIES

Mr. CULVER. Fine.

There are some who suggest we cannot have an effective trade adjustment program unless we include basic modifications to our domestic antitrust policy such as the active encouragement of mergers in the affected industries. Yet, both industrial as well as labor union concentration is already pointed out by others as being a problem as an impediment in labor mobility and consumer interests.

What does the Commerce Department feel currently about modification of our antitrust policies? I know in the past there have been occasions when you have championed changes in antitrust policy. We have had the severe case where the failing company doctrine does permit some mergers if the alternative is to go out of business. What thoughts generally do you have here as a form of trade adjustment assistance?

Mr. LYNN. Let me say, Mr. Chairman, that on this subject I am not aware of a formal administration position in this area by way of advocating changes. I do believe that Secretary Peterson, when in his prior position as assistant to the President, when he had CIEP, said that this was an area that we ought to look at, and I certainly feel as a personal matter it is a matter to be looked at. I would say that the best way to find out whether you need a change is to present specific proposals that seem to make sense in the public interest and see whether the antitrust laws will accommodate them.

I am struck in this area by some rather broad rhetoric versus a lack of specific factual circumstances to support changes. I would hope that the experimental technology program will afford us some insight as to what the present antitrust law accommodates and does not accommodate. I would hope that when we gather much better information than we have now on the international competitive arena that that might well have an impact on those people who make antitrust policy from the standpoint of saying should we look at this particular merger from the standpoint of purely domestic competition or when we are determining whether it has a substantial liklihood of lessening competition should we take into account the benefits the consumer has from the competition abroad.

So therefore what I am really saying is I would like some more facts but, indeed, we ought to look at it.

Mr. SILBERMAN. I would like to add something on that, Mr. Chairman. That is a subject which our committee has been looking at, as Under Secretary Lynn has also been, and it may be that part of the problem here is not so much a question of whether domestic corporations can do that which they want to do, so much as an area of some confusion as to whether they can do what they want to do, and it may be that a more effective guidance or information dissemination system might be called for. That is one of the things we have been discussing and I have discussed with Jim Lynn.

THE ADMINISTRATIVE STRUCTURE

Mr. CULVER. With regard to this, we talked a little about administrative alterations, and the implementation of the trade adjustment as-

sistance program structure. Could you both elaborate on your thoughts? You talked a little about using the State unemployment office as a possible vehicle. Should we have a single board or a set of boards for the entire economy, or should there be separate structures for each of the major industries?

Mr. SILBERMAN. Well, Mr. Chairman, one of the problems with the present delivery system on the workers' side is a function of its present decentralized structure; that is to say, that import related dislocations are perceived more quickly, unfortunately here in Washington, and then it is a challenge to the Department of Labor to make sure that they are responded to effectively, notwithstanding the fact that we have a generally decentralized delivery system. That is why we found it necessary, the Secretary and I, to set up a committee here in Washington to ride herd and monitor the delivery of adjustment assistance by reason of imports and make sure that it is done effectively. We included in our International Labor Affairs Office which is only here in Washington as part of that committee, to insure that there is sensitivity to the overriding national problems.

So in response, I suppose we do have a decentralized delivery system. I don't think it would be useful to move the decisionmaking out of Washington as to whether somebody qualified for adjustment assistance after he applied because of the tremendous national implications of trade policy. Obviously, you would not think of a regional trade policy. Because import is so intrinsically intertwined I think the focus would probably have to remain nationally, but I confess I have not given as much thought to the question as I should.

Mr. LYNN. With 20 cases, that would be only two cases a region.

No. 2, as I indicated in my testimony, we have been "investing the wheel," so to speak, with the policy decisions that have to be made, so, at this particular time, we are only beginning to get started even if we had a much heavier load.

My third point would be that, if there is an industrywide problem, industry is usually scattered about the country and therefore a central place to work on that problem makes some sense. If we are thinking of a community assistance scheme, there are already mechanisms in place to regionalize the effort through the Federal regional councils. EDA in my own Department, which I would look to for substantial assistance, has regional offices to carry out the mandate to do that kind of job. I can't help but put in a plug for the Department of Community Development at this point. There would be even further coordination in the field on the public works, community assistance side, if we had a Department of Community Development.

NOTIFICATION AND COOPERATION

Mr. CULVER. We have had testimony during the course of the hearings that in some cases where an application has been made by the work force for trade adjustment assistance or where the management had gone ahead and made application for assistance that neither party informed the other of their initiative.

What kind of mechanisms do you have that at least require a degree of communication between labor and management, and not to mention Government?

Could you comment on that?

Mr. SILBERMAN. You know, Mr. Chairman, I read that testimony, too, and I was a bit surprised. I asked my people about that. I understand that, as a matter of course, the Department of Labor contacts labor unions which represent workers employed in an industry applying for adjustment assistance or escape clause action as soon as we know about it.

Isn't that correct?

Mr. Blackman might address himself directly to that.

STATEMENT OF HERBERT BLACKMAN, DEPUTY ASSISTANT SECRETARY FOR TRADE AND ADJUSTMENT POLICY, DEPARTMENT OF LABOR

Mr. BLACKMAN. That is precisely correct, and we have had very good cooperation with the labor unions on adjustment assistance. They work with us and we keep in touch with them whenever there is a case which is pending or is about to be pending on adjustment assistance.

Mr. CULVER. You notify them, in effect, but is there any effort to bring about a meeting between the work force's representatives and the management? For example, it seems to me that it would be useful there to talk about cooperation. It is one thing to get a notice to say your boss is going out of business and another to insure cooperation and communication of an effective nature.

Mr. SILBERMAN. I think we are obliged, certainly in the Government, to enter into a sort of outreach effort at that point to make sure that every worker in the affected industry knows about his rights under the law and to provide technical assistance indeed, to the filing of petitions. As you noticed, some of the witnesses pointed out that the Tariff Commission's forms are so complicated that often workers and unions need a great deal of help in trying to develop their petition. We provide some help on that as much as we can, but we would like to do all that we could to outreach to those employees.

Now the question of labor-management cooperation, often you have it, sometimes you don't. We would like to see it as much as possible. In most of these situations they are in the same boat together and indeed in most of the situations they regard that as a common problem. Certainly this is true in the major industries where usually they coalesce to provide pressure on the Congress to come up with alternatives.

Mr. CULVER. But on the minimum, say, before we review your application, could you assure us that the work force has been notified?

Mr. SILBERMAN. That would be from the Tariff Commission.

Mr. CULVER. Whatever is involved. Something like that may be a useful administrative step.

Mr. SILBERMAN. I certainly think the workers ought to be notified when the industry seeks adjustment assistance.

INTERNATIONALIZATION OF ADJUSTMENT ASSISTANCE

Mr. CULVER. On page 7 of your statement, Mr. Silberman, you say:

> Perhaps if there were a consensus on this view it would be possible to establish some general international guidelines for countries which would help limit the transfer abroad of the costs.

Have you ever given any thought in the task force to various formulas for a more effective trade adjustment assistance program, such as having a contractual relationship essentially whereby forms of financial assistance are worked out so that the exporting country would formally agree to assume some of the costs of internal adjustments in return for a continued market agreement.

In order to put flesh on your bone, what international guidelines are you suggesting?

Mr. SILBERMAN. You are doing a pretty good job, it seems to me.

Mr. CULVER. What do you mean? What would be the terms of mutuality of obligations here that would actually make a share of the cost burdens more equitable?

Mr. SILBERMAN. I think you have outlined very much the kind of thing that we are considering and looking at now. You are quite right when you suggest that an orderly marketing agreement which restricts, in some fashion, the amount of imports which X country can send to the United States is in a sense a trade-off or could be regarded as a trade-off for their financing certain kinds of adjustment assistance which I think is what you were aiming at, and we think that mutual financing of adjustment assistance might be a very useful technique.

It involves some very tricky multilateral negotiations as you would think. One of the areas that it seems to me would be an interesting area would be with respect to American agricultural shipments to Europe. I think this country would be able to respond to European farmers' problems if we could get a better break in the European market. This question of how much it costs——

Mr. CULVER. Just put some flesh on the Marshall plan and send a few more feed grains.

Mr. SILBERMAN. Sure. I would not want to leave the impression, Mr. Chairman, that we don't think orderly marketing mechanisms for certain kinds of industries would not be needed.

I really don't think adjustment assistance could do the whole job.

Mr. CULVER. Would you agree with the desirability of a time limit?

Mr. SILBERMAN. Absolutely.

Mr. CULVER. Mr. Lynn.

Mr. LYNN. The only place where you give me some pause, and this is one of the reasons why these problems are never easy, is in the area of something that is really vital to the national security. I am talking now in a theoretical vein. What would you do with the case where you had an industry that was not doing very well here, but whose vitality depended on being able to sell a certain number of products that were not essential to the national security and which is being heavily impacted in that area?

I will confess at this point I don't know the answer to my own question. That is the area I want to think about.

Mr. CULVER. It depends on whose area the industry is in.

One last question. One of the problems in any manpower training program seems to be the theory of labor mobility—putting people where the jobs are. When we talk about the costs of such a program and its success, some of the problems which present themselves are the psychological and behavioral reactions of people when they are uprooted from an environment which is very consequential to them and where they wish to stay. No matter how skillful we get at matching men with jobs we have to face these problems. I am interested to the extent to which there are studies currently going on within the Department in the field of behavioral science.

What do some of your reviews or some of the discussions within the Labor Department have to suggest to us in terms of the effectiveness of the approaches to encourage labor mobility?

Mr. SILBERMAN. Well, we have been working on that; doing studies, doing a lot of thinking about it. I suppose some things seem to be obvious but it is still important that we get empirical data to establish them. It is very difficult to move older workers and you have to take that as given; it should not be hard to figure out why, and most people see the problems. So it means, I suppose, that when you talk about labor mobility and your manpower programs, you probably should have a different kind of mix or different aims with the older workers than the younger workers.

Second, we found that pensions become a very important part of the problem and that is why the administration proposed legislation which would provide minimum vesting standards; so that when people move from job to job they would carry with them certain pension benefits that they previously had earned.

The Ways and Means Committee is presently taking testimony on the administration's bill in that area.

Now there are some other aspects of the problem I attempted; and I think I will tell an anecdote of a union president who came to my office some time ago and expressed dismay at his inability to get certain members to move from one State to an adjoining State. He could not understand it. I asked him what was the problem and he turned to me and said—he shall have to remain nameless—"The Government has too many income maintenance programs which make it too easy to stay where you are."

This was extraordinary, coming from a union president, and that presents some painful thoughts. We may well have to think about ways to shift incentives and disincentives to push people to move. It is temporarily painful but in the long run it may be much better for them and for the economy.

One of the areas where we have had terrible problems is with the engineers and scientists. Now their unemployment rate is actually very small, less than 3 percent, but they are impacted in certain areas, such as Seattle, and we find it is terribly difficult to get those people to move even for real jobs, decent jobs.

One might ask the question, and I don't propose this as a solution but in the spirit of an open analysis here and dialog, whether or not the income maintenance program should not be structured in such

a fashion as to provide a real disincentive to just sit if there are jobs available elsewhere in the Nation.

Now insurance programs are run by the States; maybe we have to look at that in a broader way.

MESHING NATIONAL ECONOMIC AND SOCIAL POLICIES

Mr. CULVER. What kind of internal mechanisms do you have in the executive branch of Government to make sure there is a rational meshing of economic and social policies such as social security benefits, manpower training, and welfare maintenance?

I know we don't do it all that well in a congressional context, which I think is one of our problems.

Do you have within the executive branch the kind of coordination to insure that these policies are harmonized in a way which I am the first to acknowledge we don't do here in the Congress?

Mr. SILBERMAN. I think that the growth of influence and power and activity of the Office of Management and Budget has been a direct reaction to this kind of problem.

The Domestic Council is to a certain extent a manifestation of this kind of problem, the need for closer coordination.

Furthermore, to be perfectly honest, I would draw your attention to the President's reorganization plans which are designed to deal with this kind of problem. For instance, under the reorganization plan part of the Department of Labor goes over and merges with the Department of Commerce and parts of other departments to form a new Department of Economic Affairs.

Another part of the Department of Labor, manpower, will go over to the Department of Human Resources which takes most of HEW and we can have a meshing of education and manpower policy.

Anybody who works in this for some time realizes that it is, if I may use a phrase which we are all familiar with, a seamless web between the time they start education at 5 years old until the point that you mentioned a little while ago about periodic retraining for all workers. It is all part of the same kind of process and a wise distribution of Government resources would suggest, as a bipartisan group has suggested, that the kind of reorganization plan which the President has suggested would go a long way to solve the problems that you allude to.

Mr. CULVER. I want to thank both of you very much for appearing today. Your testimony has been extremely helpful to us, and we appreciate it very much.

The subcommittee will stand adjourned until tomorrow at 2 p.m.

(Whereupon, at 4:33 p.m., the subcommittee adjourned, to reconvene at 2 p.m., Thursday, May 11, 1972.)

TRADE ADJUSTMENT ASSISTANCE

THURSDAY, MAY 11, 1972

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY,
Washington, D.C.

The subcommittee met at 2:20 p.m. in room 2172, Rayburn House Office Building, Hon. John C. Culver, (chairman of the subcommittee) presiding.

Mr. CULVER. The subcommittee will come to order.

Today the Subcommittee on Foreign Economic Policy begins its sixth day of hearings on the concept and workings of adjustment assistance.

Because the development and implementation of a constructive U.S. foreign economic policy depends in large measure on the success of adjustment assistance, it is most fitting to welcome this afternoon two of the senior officials most concerned with U.S. foreign economic policy, Willis C. Armstrong, Assistant Secretary of State for Economic Affairs, and William R. Pearce, Deputy Special Representative for Trade Negotiation.

Mr. Armstrong has the distinction, I think, of being the first witness to appear before the subcommittee both in the capacity as a private citizen and as a public official, and we are delighted to welcome you here today.

STATEMENT OF WILLIS C. ARMSTRONG, ASSISTANT SECRETARY OF STATE FOR ECONOMIC AFFAIRS

Mr. ARMSTRONG. Thank you, Mr. Chairman.

I have a statement, which I believe has already been made available to the committee. I know you are having a busy day in the House and I would be glad to summarize this and be prepared to answer any questions, if that is agreeable to you.

Mr. CULVER. That would be fine.

(The prepared statement of Mr. Armstrong appears on p. 285.)

Mr. ARMSTRONG. As you know, we are in the process of reexamining trade adjustment assistance. The administration as a whole has not worked out its definitive position. What I am, therefore, doing is giving you a few views that reflect the thoughts of people in the State Department, with the idea that these may be helpful to you in considering and in continuing your study of the subject.

There is a view that adjustment assistance has not worked. I think it would be fair to say that adjustment assistance in the proper sense of the term has not really been tried. The program needs to be im-

proved. It is, in our judgment, much better than any widespread import restrictions, and therefore I think that it merits a good deal of very careful study.

Adjustment assistance, I might say, in our judgment is not there to deal with unfair foreign trade practices. We have an antidumping law and a countervailing duty law, and we have section 337 which we can use for that purpose.

When we have general disequilibrium such as we had with our exchange rate out of shape, then this has to be tackled by more general measures which affect the whole economy.

Obviously, with the negative trade balance we had during 1971, and with the negative trade balance we currently have, it behooves us to pay careful attention to improving our productive efficiency in getting the best possible out of our available resources and in making ourselves as competitive as possible in foreign markets.

To make ourselves flexible and dynamic and have the ability to initiate and respond to change, we need to take full advantage of our capacity to invent and to exploit inventions. We need to encourage our people to use their best initiative in the field.

We cannot keep our competitors from producing products similar to ours. If we are careful and efficient, we can produce products which continually are better, and we can keep up with the competition.

If we spend too much time and effort on simply protecting people from the misfortunes that they suffer from a basic trade adjustment, caused either by domestic or foreign difficulties, then we may not have the energy and resources to put where we ought to put them, which is to bet on our strength and to make ourselves competitive.

Change these days, of course, as everybody knows, comes awfully fast, and the pace of change is increasing, or it seems to be increasing all of the time, and one has to keep running faster to keep up with it.

Sometimes, though, when change comes, management can adjust and society as a whole can adjust, but where people work in a plant and may be in an isolated position geographically or in a line of industry which is no longer particularly competitive, they have a real problem.

And one must take care of the problem which they have by helping them in some way or other. Simply taking care of them by giving them an income is not good enough. If they are to be productive members of society, the important thing to do is to get them retrained, get them relocated, get them reemployed in doing something which will contribute to the economy and not something which has to be carried by the economy.

Therefore, trade adjustment assistance can play an important role in enabling companies to advance their efficiency and to make the right kind of shifts in resources. The Government can help in these fields. It can help by improving the means by which trade adjustment assistance can be rendered to the companies and to the employees.

The criteria for eligibility which have existed under the current law or under the Trade Expansion Act of 1962, are criteria which have been very strict.

The Tariff Commission has been somewhat more liberal in its interpretation since 1969, and there have been a number of cases where ad-

justment assistance has been put into effect. But the law needs amendment in our opinion, so that timely aid can be made available on the basis of a clear test.

The administration recommended, in 1969, that eligibility would require a showing that increased imports are a substantial cause of actual or potential serious injury or unemployment or underemployment.

I think the difference between adjustment assistance and escape clause measures is generally familiar, and I won't comment on that particularly, but I do think that our emphases should be: as short a period of adjustment as possible, as quick a transition to some industry which is more competitive or which can be made more competitive; and I think the emphases should be as much as possible on improving the skills and qualifications of people so that they can continue to contribute better to the production of goods and services in our society. We need the goods and services; somebody needs them, and we must be competitive in producing these things.

I know that there has been an interest in how other countries have made use of adjustment mechanisms. We have submitted for the record a detailed description of foreign practices in this regard, which we hope will be helpful to you.[7]

In general very few governments have trade adjustment assistance per se, but they do have programs of a technological nature involving a whole industry. In general their programs tend to aim more at promoting strength than to helping the people who have had misfortunes.

I observed, for example, when I served in Britain, the operation of some of the procedures there. They try to get industry to locate in the so-called less developed areas such as some parts of Scotland or Wales or Northern Ireland. They have inducements for capital and they have training programs for workers, and the emphasis is on the positive side of getting people involved in new industry rather than on the negative side of protecting those who have suffered from a competitive situation.

It may be that their experience is useful for us. It may not. In any event, we have provided you with what data we have on this subject, and I have two colleagues here, Mr. Chairman, from the State Department, Mr. Renner and Mr. O'Mahony. They know more about this subject than I do, and we would be glad to try to answer questions.

(Mr. Armstrong's prepared statement follows:)

STATEMENT OF HON. WILLIS C. ARMSTRONG, ASSISTANT SECRETARY OF STATE FOR ECONOMIC AFFAIRS

Thank you, Mr. Chairman. My name is Willis C. Armstrong. I am Assistant Secretary of State for Economic Affairs.

As you know, the Administration is in the process of reexamining trade adjustment assistance. The purpose of this review is to determine how best to construct a more effective program to help firms and workers adjust to import competition. As the testimony before this Subcommittee has already revealed, the conceptual and practical problems that need to be sorted out are many and complex. The Administration is still in the middle of this process. Thus, I will not be able today to portray the Administration's position. What I can and will do is share some thoughts with you. To some extent my observations will reflect a concensus within

[7] See appendix to the Statement of Willis C. Armstrong, "Adjustment Assistance Measures of Some Other Nations" on p. 709 of the appendix.

the Administration. But mostly I will outline how we in the Department of State see the problem.

Some groups contend that adjustment assistance has not worked and that the proper response to competition from abroad is to impose greatly intensified import restrictions. It is generally agreed that adjustment assistance has not served its intended purpose. But the solution, as seen from the Department of State, is to improve the adjustment assistance program, not to abandon it in favor of widespread import restrictions.

With this in mind, permit me to begin by discussing briefly the whys of trade adjustment and trade adjustment assistance. It might be helpful in this connection to point briefly to what trade adjustment assistance is *not* good for. It is neither a useful means of coping with unfair trade practices nor a remedy for general economic disequilibrium.

We have laws in force for dealing with unfair foreign trade practices. These include the antidumping and countervailing duty laws and Section 337 of the Tariff Act. They should be and are being used.

When a nation is faced with a situation of general economic disequilibrium, such as when its exchange rate has become unrealistic, it is all but impossible to distinguish the forces behind intensified import competition: those springing directly from the general disequilibrium and those that would be present even if the general disequilibrium were not a fact. But the cure for general disequilibrium lies with the use of macro-economic policies, not adjustment assistance. So while trade adjustment assistance has a useful role to play in dealing with other competitive conditions, mainly those associated with shifting comparative advantages, it is not a tool for treating across-the-board economic imbalances.

Trade adjustment assistance can help an economy maintain its essential dynamism. It can also help alleviate some of the burdens of adjustment to changing conditions of trade.

If a nation's economy, such as our own, is to remain strong, particularly in comparison with others, it must forever be seeking ways of increasing productive efficiency, of getting the most out of scarce resources, and of enabling its people to work where they can earn the highest pay. Inputs should be constantly directed to where they obtain maximum returns. Yesterday's best resource uses very well may not be today's.

America's strength in the world economy today lies precisely in the areas requiring great flexibility, dynamism and the ability to initiate and respond to change. We are strong in invention and stronger still in the industrial application and exploitation of invention. Our foreign trade reflects this. We have a large trade surplus in high technology products, and it is expanding.

By its very nature, however, technological advantage in a product or a process can be transitory. Information spreads widely and quickly. We cannot keep our foreign competitors from eventually producing products similar to those we have pioneered. So we must keep pioneering. As long as we continue forward, we shall continue to prosper. We cannot allow ourselves to get bogged down in protection of traditional areas of production. To do so would be to sacrifice our basic competitive strength.

An idea has come to be accepted and expounded by certain groups of late that our nation would benefit by discouraging adaptations to change; i.e., by deliberately locking itself into existing patterns of production and trade. This line of reasoning can have considerable appeal when unemployment is running at a high level. Dropping out of the competitive race, however, has always been a formula for stagnation.

In today's world changes are taking place with ever accelerating momentum. The consequential shifting of resources within an economy to their most profitable uses involves constantly changing production, import and export patterns. There is no generally valid long-run reason why we should not encourage this process and make it easier for those most directly involved.

We have more to gain by concentrating our energies on developing our high technology industries and thereby expanding our exports than by resorting to import curtailment. The fact is that there are more and better jobs for Americans in producing goods for export than in producing a like value of goods which compete with imports.

Change, however, sometimes comes easily, sometimes with difficulty, and sometimes it is hard. Adjustment assistance can make it easier for changes to take place so that the benefits of change can accrue to the nation as a whole and to those intimately involved in the changes.

This is the case despite the fact that in the United States most adjustment takes place very appropriately without direct governmental intervention or special assistance. Market forces generally are expected to provide and most often do provide the required sense of direction and incentives for resources to flow where they are most required.

But market forces in the international arena have been strongly influenced by an array of governmental policies. Tariffs, quotas and other non-tariff barriers directly affect the foreign trade and structure of production of every country in the world. Ours is no exception.

When governments move to enhance economic efficiency by negotiating the lowering of trade barriers, new competitive pressures emerge. In some cases the appropriate response to this new competition involves investing to improve efficiency in the areas where the increased pressures are felt. At other times, a shift of resources to more rewarding employment is required.

Trade adjustment assistance can play an important role in enabling firms to advance their efficiency and in facilitating resource shifts. Here we encounter a need for some convergence of economic and social considerations and policies. The gain from enhanced productive efficiency ordinarily will be widespread. Those directly involved will also benefit by entering more rewarding occupations. But in the short run the process of change can impose burdens on particular groups. Money may move easily from place to place, but productive facilities and people at times do not.

We well know that, whereas, many executive and blue-collar workers have been able to change jobs easily—indeed, some are fortunate and have been quick to seize opportunities to move to other kinds of work—others find it hard to do something else. New skills may have to be acquired. A move to another town may be required.

These are difficult adjustments to make. Without financial assistance savings can be wiped out. Without training the worker may wind up in a lower paying job. These are severe consequences which to some extent may be modified.

The government can help ease these burdens; doing so may not only facilitate but actually encourage the required shifts. Having said this much about domestic policy matters since they are a factor influencing foreign trade issues, I shall at this point leave further discussions of applied adjustment assistance to representatives of other agencies.

Let me turn to the matter of making trade adjustment assistance a more available instrument. Availability has important trade policy implications. If it is not sufficiently available, as we all know, the pressures will be present to apply trade restrictive measures in its place.

A major problem involved in making greater use of trade adjustment assistance in the United States, as the Administration has pointed out for several years, has revolved around the stringency of the legal criteria for eligibility. As this Subcommittee is aware, under the Trade Expansion Act, the criteria are identical for escape clause (i.e., trade restrictive) relief and adjustment assistance; that is, the Tariff Commission must "determine whether as a result in major part of concessions granted under trade agreements, an article is being imported into the United States in such increased quantities as to cause or threaten to cause, serious injury to the domestic industry producing an article which is like or directly competitive with the imported article," or in the case of workers' petitions, ". . . unemployment or underemployment of a significant number or proportion of the workers . . .". Here lies the difficulty.

From the time the law came into effect in 1962 through 1968, the Tariff Commission interpreted the qualifying criteria very strictly, and no adjustment assistance was granted. After November 1969 a more liberal interpretation enabled some firms and worker groups to receive assistance.

Of the 28 firm cases considered since November 1969, only five affirmative determinations were made by the Tariff Commission. The President, however, was able to accept the affirmative findings in six split-determination cases. Of 124 worker cases considered, the Commission found affirmatively in 18 of them, and the President accepted the affirmative finding of 29 split cases. The more recent cases have mostly resulted in negative determinations on the ground that the "link" with past trade concessions could not be established.

The needs of firms and workers for adjustment assistance exceed these results. At a minimum, if results are to more fully match needs, the law will have to be

amended so that appropriate and timely aid can be made available on the basis of a simple and clear test. This was the basis of the Administration's 1969 recommendations under which eligibility would require a showing that increased imports are a *substantial* cause of actual or potential serious injury unemployment or underemployment. The increased imports should not have to be demonstrably related to a prior trade agreement concession.

I am sometimes asked how "liberalized" trade adjustment assistance might mesh with other possible "escape clause" measures; namely, those involving temporary trade restrictions. I would hope that, as our employment and overall balance of payments conditions improve, pressures for specific trade restrictive actions will greatly diminish. Cases possibly may arise, all the same, where rapidly increasing imports of particular commodities are seen to impede the intended purposes of trade adjustment assistance. In such instances—I would expect them to be rare instances—it is conceivable that, until the adjustment process has passed a particularly critical phase temporary restrictions may have to be utilized.

Any automatic "linking" of temporary trade restrictions with trade adjustment assistance, however, could have the undesired effect of reducing the urgency of adjustment. Trade barriers engender a false sense of well-being, and all to frequently in the end make adjustment more difficult than ever.

The rule I would advocate is that when problems of import competition arise or threaten because of particular changed circumstances, the general approach should be to make the first avenue of relief trade adjustment assistance; only where assistance would unavoidably be an insufficient remedy should consideration be given to import restrictions. Even then the restrictions should be strictly temporary and designed to facilitate, not deter, the adjustment process. In any event, the *sine qua non* for almost all import relief should be that adjustment is taking place or will commence very shortly.

Mr. Chairman, you and the other members of this Subcommitte have expressed an interest in how some other major trading nations facilitate trade adjustment. We have examined the material available to us on this subject. I will summarize briefly our findings and submit for the record a more detailed description of foreign practices.

Few foreign governments have created special *trade* adjustment assistance machinery. For the most part they employ a variety of policy instruments for generally encouraging shifts to resources from less productive to more productive uses. For the most part they are not, as our program is, directly aimed at the so-called injured. The targets of the technological and other adjustment-type programs of the other nations are most often a whole industry, rather than individual firms. The programs tend to aim more at promoting strength than aiding the weak. Their declared purposes are usually to enhance a particular industry's productive efficiency and marketing effectiveness, and to re-employ displaced workers, frequently by attracting new firms into high unemployment areas, converting declining industries to new lines of production, and/or retraining and relocating persons out of work.

One technique often employed is the industry study. Conducted as a rule jointly by government and industry, generally with outside help (academicians, consulting firms, etc.), the objectives of such studies are to determine what ails an industry and what could make the industry stronger. It would be difficult to evaluate these studies as a whole—there have been too many of them to allow such an appraisal. There are good reports about some; others apparently have focused more on symptoms of problems than causes.

One alleged impediment to efficiency often referred to abroad is the presence of uneconomically small firms. It has been rather common for industry study recommendations to include proposals for significantly altering industrial structures, usually the call is for some form of additional horizontal or vertical integration.

The situation varies, of course, from country to country. The appendix to my statement discusses a number of specific cases.

I doubt whether there are highly important lessons for the United States in the experiences of these others, except possibly for one principle: to be successful, any program of modernization or adjustment must deal with the particular problems prevailing in the nation concerned. We might look to see what others are doing, but when it comes to adopting policies for the United States, what we must do above all is to take account of the peculiarities of our own

situation. A successful adjustment program under one set of circumstances may be a complete failure under another set.

Thank you, Mr. Chairman. I appreciate this opportunity to provide the Subcommittee with our views on this important subject.

A NATIONAL MANPOWER AND INDUSTRIAL POLICY

Mr. CULVER. Thank you very much, Mr. Armstrong.

Mr. Armstrong, like the Department of Labor, I note that your statement on page 12 pointed out that most other advanced industrialized nations have not focused on trade adjustment assistance but rather seek to relieve employment dislocations within the framework of broader national manpower and industrial policies. You go on to say you doubt whether there are important lessons to be learned in their experiences.

Taking into account the "peculiarities of our own situation," shouldn't we be a little more openminded, and as several of our witnesses have suggested, begin to place emphasis on developing our own broad manpower and industrial policies rather than approach this problem in the narrow context of trade adjustment assistance?

Mr. ARMSTRONG. I think you are right. I think what we need is a dynamic economy that can adjust to change. If you anticipate change, your capacity to adjust will be better. If you are always running after change and patching things up, then your capacity, your capacity to anticipate change and put yourself in a good position when the change comes, is diminished.

We were addressing trade adjustment assistance in this study, because this is the Committee on Foreign Affairs and because our business is foreign affairs. But if you ask me as a citizen to comment on a broader basis, then I think a more broad-based approach to questions of industrial ills, mobility of labor, to all of these things and to taking advantage of the advances in technology, these are all in my judgment essential if we are going to have a productive and efficient economy that can compete with other countries.

Other countries attack their problems on a macrobasis, and I think this is the kind of problem that needs to be attacked on a macrobasis.

FOREIGN ADJUSTMENT PROGRAMS

Mr. CULVER. When we talk about peculiarities, I think we are unique in the extent to which we pursue ad hoc measures in trying to make distinctions in terms of making available adjustment assistance as a result of particular dislocations. I think perhaps one of the lessons we can learn from the other experiences in this general area of manpower retraining and education is that we ought to be approaching the problem more in its totality and not try to carve out these special categories of unemployment and displacement for whatever combination of causes, whether it is an alteration in Government procurement programs, or technological dynamics of the domestic economy.

I am curious what you think the foreign experience, which I think you are able to comment on, is instructive in this regard.

Mr. ARMSTRONG. I think it is. For example, the British set up a Ministry of Technology under the Labor Government in 1965. Their emphasis was on trying to make sure that British industry was using

the most modern technology and was using it in the most effective fashion.

I don't think that their experience or their performance was, shall we say, as outstanding as their ambitions, but at least they did study the problem in a good deal of detail, and I think that this could be something that would be useful to the United States.

I am aware of the President's message on science and technology and of the emphasis being given to that subject in terms of our general productivity. It could be that examining what other countries have done in this regard could be helpful.

I think we have tended in this country to be a little bit relaxed about being rather sure of our technological advantage over other countries and have been a little relaxed about our general level of prosperity.

I think we need to look a little harder at it to make sure that we are in the right shape for running.

INTERAGENCY COORDINATION

Mr. CULVER. What sort of interagency coordination mechanisms do you have so that when we get involved in bilateral or multilateral discussions with regard to voluntary trade restraints we integrate the manpower consequences. I am really trying to see to what extent we have a degree of governmental coordination and communication in recognizing and acknowledging the adjustment problems during the period of negotiating and implementing orderly marketing agreements, so that during this period we are actually using it for effective adjustment of the work force, and helping a particular industry to convert to a more productive and competitive efficient position.

Mr. ARMSTRONG. Mr. Chairman, I haven't had much experience with any of these as yet. I have only been on the job since the middle of February, and I am not familiar with that. I wonder if I could ask Mr. Renner to respond to that question.

STATEMENT OF JOHN C. RENNER, DIRECTOR, OFFICE OF INTERNATIONAL TRADE, DEPARTMENT OF STATE

Mr. RENNER. Mr. Chairman, there is a rather elaborate system of interagency coordination. The interagency committees chaired by the Office of the Special Trade Representatives deal with most trade matters whether they be trade promotion, trade liberalization, or trade restriction. That is the normal mechanism for dealing with these matters on an interagency basis.

In addition, we now have the Council on International Economic Policy which is chaired by the President, as you know, and which has various task forces reporting to it.

Mr. CULVER. Have you ever been a participant in these situations?

Mr. RENNER. I have been participant in many of these sessions myself.

Mr. CULVER. Could you respond briefly to the question I asked? Take the situation of voluntary restrictions on textiles or steel, or some orderly marketing agreement that we have. When you participate in those deliberations, what is the degree of coordination and discussion and focus on this question of the complementary manpower arrange-

ments that should take place? To what extent are the Labor Department and other concerned departments brought into the mix so you have a package that is realistically going to effectively operate during the period of the agreement in order to affect the manpower adjustments involved?

Mr. RENNER. Mr. Chairman, if I understand your question correctly, you are asking whether, when an interagency body gives consideration to import restrictions of one kind or another, the same interagency body considers manpower adjustment policy. In my personal experience, that has not been the case.

SECURITY AND FOREIGN POLICY COSTS OF PROTECTIONISM

Mr. CULVER. Thank you.

Mr. Armstrong, since security and political concerns are an important integral part of foreign economic policy, what in your judgment are the security and political costs if the United States shifts to a protectionist position?

Mr. ARMSTRONG. I think it is very difficult to have a strong and effective foreign political policy without having a strong and effective American economy upon which it is based. I think that if we adopt a highly protectionist program of restrictions, this would weaken our economy and make it continually less competitive and therefore weaker by comparison with other countries. And this could not help but have an effect on our general political posture in the world and our general strength as well as diminishing our military potential. A nation's military potential is correlated with its economic strength, as it is with its level of technology. That is one aspect.

Another aspect of it is that nobody can really live alone in the world, and we must have close political relations and close economic relations with like-minded countries, whether they be in Europe or the Western Hemisphere or in Asia or Africa.

The quality of our relations with them will reflect the quality of our economic relations. If we are protective, they will be protective. If we are restrictive, they will be restrictive. And if you are restrictive in trade, you are not likely to be open in other ways.

I think we have more to gain by an open world than we do by a world full of rather walled-in economies or societies. There is the necessary accompaniment to this, which is if you are going to have an open world and compete, then you have to be good at it, and you can't expect to be strong unless you are efficient in a competitive situation.

But being strong in a competitive situation means you are infinitely stronger than if you are protecting yourself against competition or against outside forces.

So I would say there is a very close relationship between the capacity of our society to perform effectively and efficiently and serve the needs of our people, a close relationship between that and the capacity to carry out a sound and effective foreign policy which will promote peace and good relations among countries.

You can have the best policy in the world, but if you do not have the horsepower, then you are not going to be listened to as much as if you do.

Mr. CULVER. What international consultations have been or should be held on the subjects of adjustment assistance, and what would be the most appropriate forum?

I think perhaps Mr. Pearce could comment on this as well, when he is given an opportunity. For example, I know that there are some discussions going on within the high-level OECD group now. I wondered whether or not trade adjustment assistance is high on the agenda of their considerations at the present time, or what other thoughts you had by way of international cooperation on this subject.

Mr. ARMSTRONG. In general, I think these days our domestic affairs become more international, and our international economic relations have more of a domestic impact, so these things tend to blend in one with the other. I am sure that within the OECD there is an interest in the kind of programs that people have for fostering industrial development and industrial change, and I know they have spent a lot of time on that. I assume there have been and will be discussions on adjustment assistance.

I will ask Mr. Renner to comment on that.

Mr. RENNER. Since most of the other major industrialized countries do not have trade assistance programs, the international interest in working out agreements on trade adjustment assistance is not likely to be very high.

By and large, other countries rely on overall industrial policies and in various devices to shift resources from less to more productive uses without reference to whether the industry is trade impacted or not.

Mr. CULVER. Do you think that there is hope that our trade representatives who are exposed to that type of system might be sufficiently impressed to come back and make some rather strong recommendations with regard to our own domestic manpower programs?

Mr. RENNER. I am not altogether certain that is the responsibility of our trade negotiators.

Mr. CULVER. It might be if they want a decent trade adjustment assistance program. It depends on what their interests are.

Mr. RENNER. Some countries, such as Canada, have both policies, the more general policy and also a specific policy for trade adjustment assistance.

Mr. CULVER. Mr. Whalen.

Mr. WHALEN. I regret that I did not hear the testimony, so I cannot ask any questions.

Mr. CULVER. We have some additional questions, Mr. Armstrong, but I realize you have another commitment at this time. I wonder if it might be possible to make those questions available to you, and perhaps you could be kind enough to submit answers for the record. We can place them at this point in the record.

Mr. ARMSTRONG. Surely. I would be glad to.

(The questions referred to, together with responses, follow:)

WRITTEN RESPONSE TO ADDITIONAL QUESTIONS SUBMITTED BY CHAIRMAN CULVER TO WILLIS C. ARMSTRONG, ASSISTANT SECRETARY OF STATE FOR ECONOMIC AFFAIRS

TEMPORARY TRADE RESTRICTIONS AND THE ADJUSTMENT PROCESS

Question 1(a): 1. It has been suggested in your statement as well as in the statements from the Departments of Labor and Commerce, that temporary trade restrictions may be needed to allow adjustments to take place. (a) If such restrictions are needed, should they have definite timetables for their termination?

Answer: Definite termination timetables would be advantageous. The period should be related to the time required for speedy adjustment to take place.

As I indicated in my testimony, in some instances temporary import restrictions can serve a purpose until an adjustment process has passed a critical phase. In general, however, restrictions on competition, foreign or domestic, are apt to have a weakening effect on the American economy. If it is decided to limit the importation of an item during an adjustment process, the most important feature of such restraint should be its role in *facilitating* adjustment. It should not serve to delay adjustment. Such trade restrictions should be limited:

To instances where they are absolutely essential to a successful program of adjustment; to the minimum restraint necessary to allow the adjustment process to proceed; to as short a time period as possible; and to cases where there is a definite plan for adjustment.

Question 1(b): (b) The steel and textile arrangements have no such timetables, have they?

Answer: Both arrangements contain time limits. Voluntary restraints on exports of steel to the United States were initially undertaken by European and Japanese producers in 1969 for a period of three years. In May 1972, the European and Japanese producers, together with producers in the United Kingdom which had not participated in the earlier undertaking, advised the Department of State of their intention to extend the restraint arrangement for an additional three year period.

The Long Term Textile Arrangement became effective on October 1, 1962, initially for a period of five years; in 1967 it was extended for a three year period and in 1970 for an additional three year period.

Question 1(c): (c) Should specific time limits be included in legislation, or left to a case by case basis?

Answer: I see no serious problem involved in including time limit provisions in legislation provided the President is allowed some flexibility. Our present trade legislation, for example, includes provisions setting specific time limits on restrictions imposed to allow adjustments to take place which might be included in new legislation. The tariff adjustment provisions of the Trade Expansion Act of 1962 specify that any increase in, or imposition of, any duty or other import restriction is to terminate not later than four years after proclaimed by the President. Such restrictions may be reduced or terminated before the expiration of four years if the President determines that it is in the national interest to do so. In addiion, such restrictions may be extended in whole or in part for such periods (not in excess of four years at any one time) as the President may designate if he determines that such extension is in the national interest.

Question 2: In terms of reciprocal action by our trading partners, what type of temporary restriction would best serve the adjustment process without seriously undermining our foreign economic policy?

Answer: Our chances of minimizing foreign retaliation will be enhanced to the extent that we take any restrictive action that might become necessary within the framework of our international obligations. Article XIX of the General Agreement on Tariffs and Trade specifically allows emergency action to be taken on imports of particular products "to the extent and for such time as may be necessary to prevent or remedy" serious injury to domestic producers. Even under these circumstances foreign countries would be permitted by GATT rules to retaliate against U.S. exports (or to demand compensating concessions by us). However, they may be less inclined to do so if they are persuaded that U.S. producers are genuinely threatened with serious injury and that restrictions are being applied to the minimum extent and for the minimum time necessary to prevent such injury during the period of adjustment.

In almost every case, tariff increases would be preferable to quantitative restraints because they would enable the price mechanism to continue to function at least partially.

THE COSTS OF PROTECTIONISM VS. ADJUSTMENT ASSISTANCE

Question 3: What are the comparative costs to the economy of protectionism vs. an effective program of adjustment assistance?

Answer: The costs of protection to the American economy are many and important: First, the direct effect of restrictions on imports is to limit the variety of goods available to consumers and industry, contribute to upward price pressures and depressed real income, and impair the efficiency of US industry by discouraging the shift of resources to more productive uses. Second, foreign countries affected by the restrictions would be entitled (and would be under strong economic and political pressure) to retaliate with restrictions against products they import from the United States. Such restrictions in turn would affect production, income and employment in America's export industries—where we are most efficient and where our best economic prospects lie. Third, even though we might be able to protect some jobs in our lower-paying, import-competing industries, as I said in my testimony, there are more jobs and better-paying jobs for Americans in producing goods for export. The over-all result of protectionism, therefore, would be a net loss of jobs and income.

The extent of these losses, of course, can be quantified only with reference to the amount of protectionism being considered in each instance. We have made some calculations with respect to one proposal (the Burke-Hartke bill) which would roll US imports back to their 1965–69 average level. Our calculations show that considered by itself this much protectionism—which was proposed under the claim that it would save American jobs—would have an eventual effect, allowing for US import restrictions and equivalent retaliation by our foreign trading partners, of causing a net reduction of about 80,000 American jobs and $716 million in income.

On the other hand, the cost to the Government of an effective adjustment assistance program will vary tremendously with the condition of the domestic economy. In periods of dynamic growth, most internal transfers of resources will take place without governmental assistance as labor and capital alike respond to new job and venture opportunities. Unemployment will be relatively minimal, for example, and much retraining can be expected to take place on the new job.

On the other hand, in periods of comparative economic stagnation, there would be fewer opportunities for workers to relocate, and even job training programs can bog down if the jobs aren't available upon completion of training. As I said in my testimony, adjustment assistance is not a remedy for this kind of general economic disequilibrium, and its cost cannot be fairly calculated under such conditions.

While quantification of costs is difficult in the abstract, it is clear that resources devoted to a strong program of adjustment assistance to enhance our areas of strength have a much greater potential cost-effectiveness than would protectionist efforts to shore up areas of weakness.

FOREIGN RETALIATION TO U.S. PROTECTIONISM

Question 4: What will be the reciprocal effect of U.S. restrictions on foreign exports? What forms would foreign retaliation take? Are we generally vulnerable to foreign retaliation?

Answer: Especially since the United States is without the necessary legal authority to provide nations affected by U.S. trade restrictions with compensatory benefits on other items of trade, such trade restrictions on the part of the United States could lead to retaliatory trade actions—restrictions against selected United States exports.

For example, the restrictive actions on carpets and glass evoked widespread criticism in the affected supplying countries. The EC countries acted as a single unit, considering the matter to be one affecting the European Economic Community as such. The EC retaliated by doubling the duties on certain chemical and textile products of primary interest to United States exporters. The EC also withheld Kennedy Round tariff cuts on imports from the United States of the affected items, thereby increasing the severity of its retaliatory action. (The 1970 modifi-

cation of the glass and carpet restrictions has helped to ameliorate the foreign relations problems.)

When a country imposes trade restrictions on "bound" items, and if agreement cannot be reached with affected countries regarding "compensation," nations with a substantial trade interest in the products concerned are free under GATT to withdraw substantially equivalent concessions. Such retaliation can take the form of discriminatory trade restrictions against the "offending" country.

The United States is vulnerable to this form of retaliation. We are the world's largest exporting nation, shipping more than 44 billion dollars worth of goods to foreign markets each year. These goods are the products of industrial and agricultural enterprises and workers in all sectors of the United States economy. They include large quantities of various kinds of goods which are sold in spirited competition with commodities produced in many foreign countires. This competition takes place in an environment in which minor price differences can affect the prospect of export sales. An exporting country, operating under the handicap of a retaliatory tariff increase on its exports, will often find its opportunities for export sales greatly reduced, if not eliminated.

IMPORTS AND MULTINATIONAL CORPORATIONS—THEIR EFFECT ON U.S. JOBS

Question 5. Does the Administration have a settled view of the effect of imports on employment in the United States? The effect of multinational corporations on employment in the US?

Answer: As I said at the outset of my testimony, it is my purpose to outline how we in the Department of State view the questions involved in these trade policy matters and to share some of my personal views with you. I would like to make two points on the effect of imports on employment in the United States. First, much depends on whether the American economy is operating at or near full capacity. If it is, imports may cause a shift in employment but are unlikely to create much, if any, persistent unemployment. If the economy is less bouyant, the impact of imports on employment is likely to be greater. Second, even when the economy is operating at less than full capacity, an equal expansion of exports and imports would increase employment and income, and an equal contraction of exports and imports would decrease employment and income. It is important to consider imports and exports together. This is especially true when governments take measures to restrain imports. In this case other governments can be expected to restrain the exports of the country restraining imports. Reciprocity is the basic rule in international trade and it operates whether trade is being freed or restrained.

Seriously study of the activities of multinational corporations is just beginning, and it would be premature to draw final conclusions about their effects. Certainly examples can be cited of particular plants that have "moved overseas" with resulting unemployment in the United States. However, the general record of employment in the United States by multinational firms appears to be somewhat better than for US manufacturing industries as a whole. Most of the plants established abroad by US firms in the past 10–15 years have served overseas markets (particularly the European Community) that would otherwise probably have been lost to foreign competition. It is probable that these plants have created jobs in the United States—producing factory equipment, components and supplementary items to those being made overseas. As I said, we are a long way from having all the facts in this important area.

Mr. CULVER. In view of our own competition on the House floor at the present moment, we won't have any more questions for you today. We wish to thank you very much for coming.

The subcommittee will recess for 10 minutes. After the vote, we will return and welcome Mr. Pearce.

Mr. ARMSTRONG. Thank you very much, Mr. Chairman.

(Whereupon, the subcommittee recessed briefly.)

Mr. CULVER. The subcommittee will come to order. The subcommittee would like to welcome Mr. William Pearce, Deputy Special Representative for Trade Negotiations.

Mr. Pearce.

STATEMENT OF WILLIAM R. PEARCE, DEPUTY SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS, EXECUTIVE OFFICE OF THE PRESIDENT

Mr. PEARCE. Thank you, Mr. Chairman.

I have two people from our office here today to assist me. They are Theodore Gates, Assistant Special Representative for Trade Negotiations; and John Garson, Acting General Counsel of the Office of the Special Representative. Both of them avoid a limitation that I have in presenting testimony. As you know, I am fairly new to the Office of Special Representative. I have not been directly involved either in the administration of adjustment assistance or in the interagency study that is being carried on right now. Both Mr. Gates and Mr. Garson have a broad background in this area, and I am sure will be helpful to us.

I am very pleased to be here today to talk about adjustment assistance, and especially some of the implications of the choices we face in dealing with import competition. Other agencies more directly responsible for the administration of the program have identified a number of problems. I would like to focus my testimony on the contributions an effective program of adjustment assistance might make in increasing our competitiveness and in improving our international economic relations.

In the present state of the world economy, trade patterns change very rapidly. The emergence of the multinational corporation, improved systems of transportation and communications, and a host of other factors have dramatically increased the tempo of trade.

Indeed, trade has been growing faster than gross national product in the major trading countries during the last decade—about twice as fast—and this has intensified concern among some industries and groups of workers for the disruptive aspects of rapidly growing imports.

This disruptive effect in some sectors can be expected to diminish with a return to substantially full employment, price stability, and a rapidly growing national economy. We believe the steps initiated by the President last August and the new exchange rates agreed upon last December are moving us in this direction. Nevertheless even when equilibrium in our payments account has been restored, the phenomenon of rapid change will continue to exert pressures on U.S. firms at the competitive margin of their respective industries.

In February of this year, in his report to Congress on U.S. foreign policy for the 1970's, President Nixon stated that a broad international assault on trade barriers is necessary and that "a retreat by any nation or group of nations into protectionism, or attempts to gain advantage over others by means of neomercantilist policies, will deal a severe blow to the international cooperation which underlies the strength and prosperity of all nations."

We have taken and we will continue to take measures in the areas of trade and investment that contribute to the creation and development of a more open system. This reflects the administration's confidence that the United States can improve its efficiency and productivity in an increasingly competitive world. However, we recognize

that certain economic and social groups and certain areas of the economy may pay more heavily than others as we progress toward a more integrated and interdependent system of world trade.

Concern for the burdens borne by these groups resulted in the creation of an adjustment assistance program in 1962. Unfortunately, for reasons and with results detailed here by others, the program to date has not achieved its major goals.

We have, in turn, witnessed growing demands for import restrictions of one kind or another. In developing a response to these demands, it is essential that we examine alternatives both in terms of their total costs and, perhaps more importantly, the distribution of these costs.

The full costs of import restrictions are seldom fully appreciated, in part because they are widely distributed and often unrecognized by those who bear them. A decision to restrict imports does not avoid the costs of adjustment to import competition. Instead, it simply transfers them to others in our society.

Consumers are most clearly in line for these extra costs. They, in turn, pass along the premium they must pay for higher priced goods to the industries in which they work in form of demands for higher wages. These additional costs serve to undermine other, more efficient, industries in their competition with foreign producers in markets both here and abroad. This process limits the growth of employment opportunities and gives rise to further demands for protection and a widening circle of cost–price disadvantage.

Our export industries, among our most efficient and productive, also bear the costs of import restrictions. Those who contend that we can restrict access to our market without paying something in return are simply not realistic. The fact of the matter is that in return for reciprocal commitments from others, the United States has agreed not to impose tariffs or other restrictions in excess of the levels it has negotiated in the GATT. Under present international rules, our trading partners must be compensated in one way or another when these commitments are violated.

Under certain conditions, the GATT permits a country to withdraw concessions and impose restrictions on imports causing serious injury to a domestic industry. The GATT provides for consultations in such circumstances and the countries affected generally agree to some kind of payment or quid pro quo.

However, because we do not at the present time have legislative authority to offer corresponding concessions—that is, to lower tariffs on other items by way of compensation—we must risk retaliation directed at our export-intensive industries.

Where we act to restrict access to our market under circumstances which do not meet the conditions of the GATT escape clause—that is, where we act "illegally" under GATT—other countries may take appropriate retaliatory action in GATT proceedings. Thus, whether the import restrictions are legal or illegal, we must anticipate some payment to restore the balance of commitments. This payment is ultimately a cost passed on to U.S. workers and industries.

In recent years the United States has negotiated a number of temporary orderly marketing arrangements to limit the rapid increase in

imports of certain products. While these arrangements are not "illegal" under GATT in the same sense that import quotas or tariffs imposed unilaterally in violation of existing commitments are illegal, they still involve costs.

Even though they are generally characterized as "voluntary," under the best of circumstances negotiations are conducted under the implicit threat of market restraints. While they have been accepted by some countries, they are not easily negotiated and are not necessarily achieved without costs.

Sometimes payment may take very subtle forms. For example, if we have a list of complaints or grievances outstanding against another country in the field of trade, the existence of a voluntary agreement restraining exports of that country to the United States influences its attitude in responding to our grievances. The basic reality is that somehow, somewhere, we must pay and ultimately the cost falls on some domestic workers and some domestic industries.

To be sure, adjustment assistance also involves costs. The funds must be appropriated by the Congress and, ultimately, the U.S. taxpayer is called upon to pay the bill for assisting a particular firm to become more competitive or to assist a group of workers to shift to more productive employment.

Most of this cost can be identified and quantified. Costs must be incurred only with respect to those firms or workers which are unable to cope with import competition. Moreover, these costs can be self-liquidating if an effective adjustment assistance program can be devised.

On the other hand, where tariff or quota relief is granted to a particular industry, costs are incurred to protect the entire industry, including both firms able to compete and those which cannot. Costs associated with tariff or quota relief are hidden in higher domestic prices for products or in restricted product availability. Moreover, these costs are shifted to workers and firms in wholly unrelated industries and, in effect, result in reduced economic growth and reduced standards of living. And we must continue to pay these costs so long as imports are restrained.

No doubt there are and will continue to be circumstances justifying import restrictions despite their high costs, but even in these cases the provision of adjustment assistance to assist an orderly adjustment could well shorten the period of import protection and, in this way, increase the cost effectiveness of both adjustment assistance and such import restrictions as might be appropriate.

An effective adjustment assistance program would, in such cases, be evidence of our desire to use constructive measures to insure our future competitiveness and to indicate that we resort to restrictive measures only when short-term adjustment problems are unmanageable.

This, in turn, would help us gain a higher degree of acceptance of those special measures we find ourselves compelled to take, and reduce or eliminate the amount of compensation that might be fairly demanded of us.

In the longer term, it is in our own interest to find more constructive solutions to problems stemming from import competition. We gain

as a nation when we successfully adjust to stronger competition. This process of adjustment to competition goes on continuously within our domestic economy as workers move to more productive, higher paying jobs, and firms develop new products or better ways of making old ones.

Smoothing and facilitating the process of adjusting to foreign competition is good domestic economic policy. We gain whenever a firm shifts to products in which it has a competitive advantage. We gain whenever a worker moves to a new job for a better future or is trained to a more productive occupation or a skill in greater demand.

Since the pace of change in trade patterns will likely continue to exceed the capacity of most countries to adjust smoothly to import competition, the possibility of revising and expanding the international rules governing responses to import competition is worth exploring. For example, it may be possible to gain acceptance of new international standards for negotiation of orderly marketing arrangements on a multilateral basis.

The President's Commission on International Trade and Investment Policy, the so-called Williams Commission, of which I was a member, explored this area. It recommended that in those cases in which orderly marketing agreements are appropriate, they should normally be negotiated under the auspices of the GATT with the participation of both exporting and importing countries, should be limited in time, and should be accompanied by measures of adjustment taken by affected industries in all restricting countries.

These and other possibilities for safeguarding sensitive industries during difficult transitional periods are under study within the administration.

It seems likely that the process of integration of the world economy will continue and that we will see an increasing flow of people, goods, capital, ideas, and technology across international borders. As this process continues, we must look out for our own interests as we expect others to look out for theirs. We cannot pursue our goals without regard to the effects upon and the reactions of the rest of the world.

If we grant access to our markets, we can expect equivalent access to the markets of others and where imports disrupt our markets, we must be prepared to deal with this to the largest extent possible through our own efforts, through programs of adjustment assistance carried out in close cooperation with others. Only through this process can we achieve our common purpose of expanding world trade and, simultaneously, strengthen the competitiveness and productivity of our industries and provide an increasing number of rewarding jobs for our workers.

That concludes my prepared statement, Mr. Chairman.

ELIGIBILITY CRITERIA

Mr. CULVER. Thank you very much, Mr. Pearce.

I would like to, if I might, use this opportunity to explore with you some of your views as a result of your experience in private business in the area of international trade.

One of the recurring problems and suggestions that we have seen in the course of these hearings is the difficulty in making distinctions

with regard to the cause of dislocation, whether or not they are brought about through genuine import competition or whether or not the straw that breaks the camel's back is really a combination of circumstances unrelated to trade. As you know, we have seen, for understandable political reasons, the effort in 1962 in connection with the Trade Expansion Act to have some specific political alternatives available to ease the adjustment costs for workers and industry affected adversely by import competition. But, frankly, I think that it was intentionally designed in such a way to be essentially unworkable because of the fear and concern about open-ended cost aspects of the legislation and the various acknowledged difficulties in implementing the program.

How confident are you that we are going to be able to devise an early-warning system, given the adversary nature of private business and government in this area, and the problems of confidentiality in terms of competition with other business within a particular industry?

Should we really be trying to carve out a special category here or should we be looking at this landscape in a wider perspective?

Mr. PEARCE. Mr. Chairman, I am not sure that my business experience provides a great deal of insight in this.

Are you being summoned?

Mr. CULVER. I am afraid we will have to recess.

Mr. PEARCE. I will stay and respond when you return.

Mr. CULVER. We will recess for a few minutes.

(Whereupon, the subcommittee recessed briefly.)

Mr. CULVER. Thank you very much for waiting.

I wonder if you might proceed now and answer the question posed before the recess.

Mr. PEARCE. Yes; I would like to.

I started to say my business experience is not too helpful in answering your question because of the nature of the business I was in and the nature of my responsibilities in the business. However, the 16 months I spent with Williams Commission has provided some relevant thoughts and it is from this background and really not as a spokesman for the administration that I would like to try to answer your questions.

It seems to me that there were three questions implicit in your statement.

The first was why limit efforts to assist adjustment to the import impacted sector. Perhaps for two reasons. First, the problem of adjustment associated with imports is manageable. It is a relatively small part of the total adjustment process.

Our imports amount to about 4 percent of our GNP and probably about 10 percent of our total manufactures, so the problem here can be dealt with in practical terms.

A second reason is that there are special political and equity considerations involved. Other witnesses have described the enormous importance imports play in our economy. I suggested some of them in my statement.

It is neither fair nor very realistic to expect a small sector of the economy to bear the major burdens that are required in order to permit us to maintain these policies. Therefore, it seems to make sense, since the adjustment problems involved are manageable, to try to smooth the

flow of resources impacted by imports into other areas where they can be more profitably employed.

This does not mean that we should ignore the larger adjustment process. Indeed, we have policies which are designed to improve our competitiveness, to stimulate growth and to create jobs. All help facilitate the adjustment process.

Clearly, to the extent these are successful then, the programs to assist the process of adjusting to import competition are less expensive and more effective. There are some who feel that we should go further, that in the present state of the world broad industrial and manpower policies would be useful in assuring our competitiveness. The Williams Commission considered this, and I was one member who felt it should be extensively explored. It deserves study and consideration.

Your second question seemed to go to distinguishing adjustment problems related to imports from adjustments necessitated by other factors. In some cases it seems to be quite simple.

In the case of small industries where imports supply a substantial part of our total consumption, it is fairly easy to distinguish import-related problems from others. Examples are the piano and flat-glass industries.

On the other hand, it is more difficult to distinguish import-related effects on the performance of firms at the competitive margin of larger industries. It is important, of course, to distinguish cases of import impact from other cases which represent poor management, obsolescence, or differential labor costs within the economy as a whole.

The fact that it is difficult, of course, does not mean that it is not worthwhile. The administration has spent a great deal of time trying to establish criteria which do, in fact, distinguish legitimate cases of import-related adjustment from others.

Finally, you asked whether the Government can do any better than business itself in anticipating economic hardships. It is probably the case that large industries with relatively few firms can do a very competent job of anticipating loss of competitiveness and in devising ways of dealing with it.

However, this isn't the kind of situation in which we are most often called upon to determine the need for adjustment assistance. We are usually dealing with industries, with a lot of small firms that lack resources that government, and big industry possess for anticipating economic developments likely to influence their success.

THE COST OF ADJUSTMENT ASSISTANCE

Mr. CULVER. In the deliberations of the Williams Commission I am sure you had occasion to address yourself to cost of a more substantial program of appropriate relief.

Were there any cost figures or estimates to offer the subcommittee as to what, given the nature of our current trade situation, is a realistic figure to even contemplate if we were going to have a more effective adjustment program?

Mr. PEARCE. Mr. Chairman, I don't recall that we tried to estimate what the costs of an effective adjustment assistance program might be. I think the strong preference for adjustment assistance expressed by the Williams Commission was based on the conviction that whatever

the costs are, they are likely to be less than costs of alternative ways of dealing with import competition.

THE COST OF TRADE RESTRICTIONS

Mr. CULVER. Mr. Pearce, on page 6 of your statement you point out that the orderly marketing agreements that we have negotiated in recent years are not achieved without cost. Could you elaborate for the subcommittee the costs incurred for the textile and steel agreements in general terms?

Mr. PEARCE. Let me try to illustrate how these costs are incurred without attempting to indicate what they are in specific dollar terms.

Last week 10 members of the Japanese Diet called on me. All represent districts in which agriculture provides an important part of total income. They were very concerned about citrus concessions that Japan had made to us in the negotiations connected with the Smithsonian settlement. And indeed we brought a great deal of pressure on the Japanese Government to gain these concessions. They were hard-won concessions on our part. We have a very efficient and productive citrus industry. It is in a position to supply a product that Japan needs. There is reason to believe that, if we could eliminate restraints in the Japanese market, we could open an important new source of income for citrus producers.

Japan maintains quotas on citrus imports which were originally imposed for balance of payments reasons. The IMF has indicated they are no longer justified and therefore under GATT rules we should expect Japan to begin dismantling them. They agreed to increase the quotas somewhat in our recent negotiations but there are now no plans for further liberalization beyond April of this year.

The burden of the message left by my Japanese visitors was that these are very damaging concessions to the Japanese citrus industry and that their problems of adjustment to imports are very acute. We were urged not to press for further liberalization in this area. They were not particularly impressed when I explained that the quotas were illegal and when I pointed to the enormous growth of Japanese exports to the United States.

The single argument that seemed to impress them most was that when the United States was faced with the very difficult problem of adjusting to rising imports of textiles, which they feel is no more difficult than theirs, we acted to protect the domestic industry by negotiating orderly marketing agreements. They expect, when we get back to the negotiating table, to maintain the position that the same rationale justifies protection of their citrus producers.

Now, this is a cost to us if they are successful. We will press for further liberalization, but it is clear that their attitude and the pressures they will bring to bear on the Japanese Government are related to the textile agreement.

I was in Geneva earlier this week representing the United States in meetings of a GATT working party examining the treaty providing for enlargement of the European community. We received very little cooperation in the initial efforts to get the information required to assess the trade impact of extending the community's agricultural policies. In private discussions the textile agreements were cited to show

that we protect sensitive industries; in their view agriculture, which is importantly involved in the enlargement discussions, is a sensitive industry deserving the same special consideration.

These are just two examples of resistance to progress we need for the expansion of our own industries, stemming from efforts we have made to restrict import competition. Clearly, such action on our part, even when negotiated on a voluntary basis, influences the willingness of others to be responsive to our needs.

Mr. CULVER. Of course, you have to also consider the factors of political and security costs which ultimately weigh in the total balance.

Mr. PEARCE. That is quite right.

TEMPORARY ORDERLY MARKETING AGREEMENTS

Mr. CULVER. What other orderly marketing agreements are we now trying to negotiate?

Mr. PEARCE. We are involved in discussions with suppliers of nonrubber footwear to the United States. What we are seeking in these discussions is some sort of voluntary restraints on shipments, not a so-called orderly marketing agreement.

Mr. CULVER. It has been suggested, Mr. Pearce, in both your statement as well as Mr. Armstrong's today, as well as in the statements that we received yesterday from Labor and Commerce, that temporary trade restrictions may be needed to allow adjustment to take place. If such restrictions are needed, should they have definite timetables for their termination?

Mr. PEARCE. My feeling is that in most cases timetables are useful. They serve as a clear indication to domestic industry that the period of protection will be limited, and that they should take advantage of it to make adjustments which either restore their competitiveness or shift their resources to industries in which they are likely to be more competitive.

The other consideration is the cost we must pay. If we indicate that the restraints are temporary, the countries whose exports suffer as a result are much more likely to be cooperative with us in assessing the cost to them, and therefore the compensation that we must pay.

Mr. CULVER. Do the textile and steel arrangements have time limitations?

Mr. PEARCE. I believe that both of them have time limits. I will supply that for the record if you like.

Mr. CULVER. If you would please.

(The information requested follows:)

MAY 12, 1972.

Hon. JOHN C. CULVER,
Chairman, Subcommittee on Foreign Economic Policy, Committee on Foreign Affairs, House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: In the course of my testimony on adjustment assistance, on May 11, 1972 you inquired as to whether the arrangements recently concluded on steel mill products and textiles (wool and man-made) were for a fixed period or of indefinite duration.

The arrangements on steel mill products take the form of two separate letters to the Secretary of State, one from the Associations of the Steel Producers of the European Coal and Steel Community and the Association of Steel Producers of the United Kingdom, and the other from the Japan Iron and Steel Exporters' Association, declaring their intentions respectively to limit through December 31, 1974, exports of steel mill products to the United States.

With respect to wool and man-made textiles, the United States recently concluded a multilateral agreement with the Republic of Korea, the Republic of China (Taiwan), and Hong Kong; and separate bilateral agreements with Japan, the Republic of Korea, the Republic of China, and Hong Kong.

The multilateral agreement has a term of five years beginning October 1, 1971. This agreement, by further agreement of the participating countries, may be replaced by another multilateral agreement of broader international patricipation.

The bilateral agreement with Japan has a term of three years beginning October 1, 1971. During the third year of the agreement, the two Governments will consider an extension thereof for a further period of time. Each of the bilateral agreements with the Republic of Korea, the Republic of China, and Hong Kong, has a term of five years beginning October 1, 1971. Each of these agreements may be terminated at the end of an agreement year by either party to the agreement by written notice to the other party.

I hope that this information will be helpful to you.

Sincerely,

(S) WILLIAM R. PEARCE,
Deputy Special Representative.

Mr. CULVER. Should specific time limits be included in legislation, or do you think that the necessary negotiation situation requires a case-by-case determination?

It is all right if you would like to call on your associates.

STATEMENT OF JOHN GARSON, ACTING GENERAL COUNSEL, OFFICE OF THE SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS, EXECUTIVE OFFICE OF THE PRESIDENT

Mr. GARSON. Sir, under the Trade Expansion Act, there is a 4-year limitation on escape clause relief unless this period of protection is extended, and that requires a new investigation by the Tariff Commission.

The administration's 1970 trade bill contained a 4-year limitation, and I think we can reasonably predict that any legislation which the administration would consider would contain definite time limitations on the initial action.

Now, as I said, under existing law there is a mechanism for extending relief beyond the initial term. The President must determine, after taking into account advice received from the Tariff Commission and the Secretaries of Commerce and Labor that such extension is in the national interest. I think it unlikely that we would have a situation that provided for open-ended relief.

Mr. CULVER. In terms of reciprocal action by our various trading partners, what type of temporary restriction, in your judgment, would best serve the adjustment process without seriously undermining our foreign economic policy?

Mr. PEARCE. It makes sense to me to consider the relationship between escape clause relief and adjustment assistance. The two can be used effectively together, it seems to me.

If we can develop a schedule for orderly adjustment to import competition, that might best determine the extent of escape clause relief, needed.

Mr. CULVER. I would like to ask you the same question I posed to Mr. Armstrong. How adequate are institutional interagency arrangements to insure that when we are involved in these sorts of negotiations that we work to encourage meaningful sorts of adjustment participation and attention by way of the affected industries?

Mr. PEARCE. The agencies, themselves, seem very effective. I have been most impressed with the operation of the Trade Staff Committee which exists within the Office of the Special Representative for Trade Negotiations. I have been impressed with the system they use to explore and resolve interagency differences and with the quality of the reports they produce.

INTERAGENCY COOPERATION WITH INDUSTRY AND LABOR

Mr. CULVER. Taking, for example, textiles, or steel, do you have a mechanism whereby you formally bring the various agencies together to cooperate with the management and work forces to talk in serious ways about a program for adjustment assistance to be implemented during the period of the oral marketing agreement.

Mr. PEARCE. The President has established a special committee for implementing the textile agreements.

Mr. CULVER. I think you understand the thrust of my question. I am curious if any one of the three of you could speak to the adequacy of our currently dovetailing these problems in terms of agency attention and in the context of the negotiations with regard to a specific marketing agreement.

Mr. PEARCE. It seems to me that the committee arrangement set up to implement the textile agreement and the special working group which provides oversight can serve effectively for that purpose.

Mr. CULVER. Has it?

Mr. PEARCE. Our experience, of course, is very limited. The arrangements have only been made effective in recent weeks.

THE COMPARATIVE COST OF PROTECTIONISM AND ADJUSTMENT ASSISTANCE

Mr. CULVER. Do we have any reliable or comparative cost figures to the economy of protectionism versus the program for adjustment assistance? You said you thought the Williams Commission had made attempts to compile figures in this regard, and I know there are numbers commonly bandied about, but what degree of precision and accuracy do we enjoy in this regard?

Mr. PEARCE. I am aware that some work has been done in this area. Fred Bergsten of Brookings, for example, has tried to identify and measure the costs of import restraints. But if there is a definitive study of comparative costs in the Government itself, I am not aware of it.

THE INTERNATIONALIZATION OF ADJUSTMENT ASSISTANCE

Mr. CULVER. Do you know if at the OECD high level trading group, whether or not trade adjustment assistance has been a subject for agenda discussion and deliberation or has received any increased priority as far as the U.S. initiative is concerned?

Mr. PEARCE. Mr. Chairman, it might be hazardous to discuss the work of the high level group report. Its discussions are at a very delicate stage right now. However I don't think that it is inappropriate to say that they have discussed this question extensively and that it will be covered in their report.

Mr. CULVER. I am interested in some of your suggestions about utilizing the GATT framework for a multilateral consideration of or-

derly marketing agreements. Does GATT in its present form provide for the negotiation of orderly marketing agreements? What type of alteration in the GATT framework would be involved here?

Mr. PEARCE. GATT has provided the forum for discussions of special arrangements of this kind, for example, the long term textile agreement. But, the arrangements the Williams Commission considered and in which I earlier indicated some interest are more comprehensive. I mentioned in my statement that we are dealing with new circumstances in respect to the rate at which trade patterns change. We face the prospect of very disruptive changes in composition of imports. This phenomenon could be recognized by the GATT. The Williams Commission suggested new GATT rules that would restrict the pace of import growth for a limited period of time to permit adjustment mechanisms to catch up. Some of the conditions under which this might be appropriate were spelled out in its report.

A question, of course, is whether major exporting nations might be willing to think about this. Japan, for example, faces a number of restraints, in addition to those on which we have obtained agreement. Countries in Western Europe continue to restrict imports from Japan which they imposed when Japan became a GATT member. If Japan expects Western Europe to open its markets it seems reasonable even from its standpoint to consider some sort of mechanism to bridge the existing gap between a rising pace of change in import composition and a less dynamic pace of adjustment. My feeling is that that process of slowing the pace of change where major industries are disrupted in several countries and increasing the responsiveness of domestic programs in effecting adjustments can pave the way for considerably more progress in trade liberalization and expansion.

Mr. CULVER. Was there ever any consideration, or have you heard of or know of any formula or thoughts whereby within the GATT framework, for example, there is a mechanism to equip them to deal with multilateral marketing agreement situations. Could this institution be utilized as a place whereby international arrangements could be made for a fund to be applied for adjustment assistance purposes for which certain arrangements could be made where the exporting country as a result of being able to enjoy those markets would be assessed in certain ways to ease the adjustment transition. I realize this is a highly complicated thing, and in effect I suppose you could say that the orderly marketing agreement, if it is tied to trade adjustment assistance, constitutes a cost to the exporting nation which in effect is a trade adjustment assistance of a certain kind.

Would there be any other formulations for assessing an exporting nation—charging them in effect for access to market so that they contribute to the adjustment cost and in that way alleviate some of the political pressures toward the national budgetary processes when we come to appropriating money to deal in the context of domestic politics with cost of adjustment assistance?

Mr. PEARCE. Mr. Chairman, I am not aware that this has been discussed at any great length, nor am I able to suggest what agency might administer it. While I have not given it a lot of thought, my initial reactions to it are not very favorable for several reasons.

Consider agriculture, for example. The United States has undergone severe burdens of adjustment in the agricultural sector since the mid-1950's. Enormous numbers of people have left agriculture for other jobs. We have paid out a great deal of money to restrain production so as to balance supply and demand at fair prices. I am a little hard put to see that we can justify, for example, contributing to the similar adjustment costs facing nations in Western Europe to persuade them to accept our exports.

These are very wealthy countries with large reserves and their own reasons to effect those adjustments. Beyond that, it seems to me that that the argument for contributing to someone else's adjustment costs reflects a rather mercantilistic view of the advantages of trade. We should not have to buy the right to sell to other countries commodities at prices that are lower than their production costs. There are advantages enough in the receipt of imports of goods that are more efficiently produced by others and in the assurances of access to their markets. I for one would not like the responsibility of coming up to Congress to explain why we should undertake those costs.

Mr. CULVER. I wonder, though; it is not hard for me to envision a situation where there is some form of assurance that access to market could be maintained and expanded as a result of this kind of participation.

I do think your point is very well taken that it does not eliminate the fundamental political resistance to adjustment in the host country involved and to that extent it doesn't matter where the assistance comes from.

Mr. PEARCE. Mr. Chairman, I agree that export interests might look upon that with favor. The question I raised was whether it was good public policy to assume the costs of adjustment to trade in order to gain access to foreign markets. I'm inclined to doubt it.

Mr. CULVER. Mr. Whalen.

TRADE ADJUSTMENT ASSISTANCE VERSUS A NATIONAL MANPOWER PROGRAM

Mr. WHALEN. Mr. Chairman, thank you.

I apologize for coming in late but that is the price one pays for having a name beginning with "W."

Mr. Pearce, I think without exception every witness who has appeared before this subcommittee has indicated that the trade adjustment assistance provision of the 1962 act has been ineffective. The phrase so often used is that it has not met the hopes that were held for it. Certainly your paper would agree with that.

I think also you made a very persuasive case why we should not exercise the option of protectionism in order to compensate for the problems arising from the changes in trade patterns.

It would seem, therefore, that the Congress really has this choice, one which I mentioned to one of our other witnesses. Whereas, in 1962 trade adjustment assistance was held out as a bait for passage of more liberalized trade legislation today a better adjustment assistance program must be put forth in order to keep our present trade posture from becoming more protective.

I think the question is: How do we do this? Do we improve the existing statutes, the existing administrative machinery? This is one

approach. Or as has been suggested by some of our witnesses, do we integrate trade adjustments assistance into a general program of manpower training?

I would like your views as to which of the two options would be preferable. Let's restate it.

Do you feel that it is vital that we keep this existing trade adjustment machinery that we have?

Mr. PEARCE. Yes, I do. I think that we should build on what we have. Many of the suggestions you have heard for making the existing program more effective deserve very serious consideration. The effectiveness of the program at any level of resource investment, of course, will be influenced by the growth of the economy itself. When we have a rapidly expanding economy with new jobs being created, the adjustments are less difficult. Under economic conditions of the kind we have experienced in the last 3 or 4 years, even a rather extensive program will not be entirely satisfactory. I believe, and this is a personal view, that more can be done to improve the functioning of the economy as a whole. It makes sense to study the gains that might be achieved by collecting existing industrial and manpower policies and to see where they might be supplemented to improve our capacity to identify prospective problem areas and to encourage the flow of resources into the areas where we can expect to achieve and maintain a competitive advantage.

In other words, I don't think that adjustment assistance and broader industrial and manpower policies are mutually exclusive by any means.

I would like to add one further observation. In this whole area, it is difficult to overstate the importance of monetary reform. No adjustment assistance or industrial manpower policies can achieve their potential when we are competing with an overvalued dollar. On the other hand, if our dollar is realistically valued in respect to other currencies, we might be able to achieve a great deal with fairly modest programs of these kinds.

Mr. WHALEN. The reason I mentioned this, of course, is, that, first, it is very difficult to determine why a company or industry is having problems. It may be due to foreign competition or it may be due to other factors.

Second, when a person loses his job he could care less what the causes were. He is confronted with the same problems suffered by an individual who has lost his job due to domestic pressures. Therefore, it can be argued that we should make one integrated approach to the problem of job loss.

Mr. PEARCE. Mr. Whalen, I suggested earlier that two considerations justify special consideration for import impacted industries. For one thing, adjustment problems associated with imports are manageable. They are only a small part of adjustment in our economy as a whole.

Moreover, by recognizing this special cost that firms and individuals facing stiff import competition pay, and smoothing the process of adjustment for them, we strengthen the support for policies which help the country as a whole. This seems to me to reflect appreciation of both political realities and the equities of the situation.

RETALIATION BY TRADING PARTNERS

Mr. WHALEN. Let me turn to two questions relating to the other option which you properly discarded, and that is the protectionism offered by such measures as the Hartke-Burke bill.

One of our witnesses who supported that measure indicated that he felt that it would not invite retaliation. You suggested otherwise, I believe. I wondered if you could comment further on that to support your view that such a protective measure would indeed result in retaliation.

Mr. PEARCE. I suggested in my direct presentation that any restriction of access to our market almost involves a cost. Whether it is described as retaliation or compensation isn't particularly important. There is a necessary cost involved in restoring the balance of concessions.

A massive effort at restricting imports would surely involve costs of similar dimensions. This would be true even if other governments were inclined to recognize that such action on our part does not reflect our longer term and, therefore would be temporary. Because changes in trade policy affect jobs and people's welfare, other countries would not be free to ignore our action. There would be enormous pressure brought to retaliate against the United States. I have absolutely no doubt that is exactly what would happen.

Mr. WHALEN. Finally, Mr. Chairman——

Mr. CULVER. Excuse me. Will the gentleman yield?

Mr. WHALEN. Yes.

Mr. CULVER. I wonder, Mr. Pearce, if you could be a little bit more specific, because I think Mr. Whalen has raised a point on which additional elaboration would be useful. That is, if you could be more specific as to what form foreign retaliation can take, and how vulnerable we are to foreign retaliation?

Specifically, I have in mind not only the immediate quid pro quo type of trade retaliation directly in kind, but the kind of more indirect and hidden retaliations in trade wars per se, such as market reorientation or in terms of the political and security implications.

I wonder if you could have for the record more elaboration on Mr. Whalen's point.

Mr. PEARCE. I have already described the ways in which we pay for restricting access to our market. Mr. Garson can give you some specific examples. There are other costs associated with the kind of reversal of policy implicit in the Hartke-Burke bill that go beyond this. We have seen that an effective international mechanism for resolving trade problems can go a long way toward minimizing tensions that otherwise can arise between countries.

The absence of such mechanisms or decline in their competence can turn economic differences into serious political problems. In part, the case for liberal trade policy is based on its contribution to political stability. As mutual dependence on others for important elements of national consumptions rises, the need to find solutions for political problems becomes more apparent. Therefore the process of evolving and using a mechanism that diffuses trade issues and increasingly integrates national economies contributes to the development of a world in

which we can enjoy greater security. Both occasions for disagreement and costs of disagreement with our trading partners are diminished.

Such a fundamental change in our foreign economic policy as Burke-Hartke implies, can only be considered in these terms.

Mr. CULVER. Thank you.

IS THE UNITED STATES MORE OR LESS RESTRICTIVE THAN OUR TRADING PARTNERS

Mr. WHALEN. As I say, one final question that is somewhat related to the previous one. There has been the argument advanced by those who are proponents of the Burke-Hartke bill that after all the United States has a much more open market than do the other major industrial nations of the world.

I don't want to ask you for a litany, a point-by-point analysis. This would be impossible, and could not be done at a meeting of this kind. But could you in general make some observations regarding the accuracy of this argument. In other words, are American tariff and nontariff barriers less restrictive than other major industrial countries of the world.

Mr. PEARCE. Mr. Whalen, as a person charged with responsibility of conducting trade negotiations for the United States and recognizing as I do that our restraints, in the eyes of others, are reasons not to be forthcoming in their negotiations with us, you find me a little reluctant to detail the area in which we are restrictive.

Mr. WHALEN. That is why I asked the general question.

Mr. PEARCE. Allow me to answer it in this way. It is very difficult to persuade other countries that, perhaps with the exception of some specific sectors, their systems are more restrictive than ours.

However, restraints in specific sectors place us at a great disadvantage. For example, Japan's restraints both on imports and foreign direct investments make it very difficult for many U.S. industries to achieve their full export potential. Moreover, the restrictiveness of agriculture policies in Western Europe is not matched by anything comparable here.

Mr. WHALEN. Thank you, Mr. Chairman.

HOW VULNERABLE IS THE U.S. TO FOREIGN RETALIATION

Mr. CULVER. Mr. Pearce, in view of the fact that only 4 or 5 percent of our GNP is related to trade, how vulnerable is the United States to foreign retaliation? How vulnerable are we economically to foreign retaliation in terms of meeting the political arguments that in an international setting, if you set aside the political and security considerations, the economic consequences to us by any type of economic retaliation as such, the denial of raw materials to us, and so forth, is really not all that serious a consequence? That if we get in a trade war climate, as far as the world is concerned, that we, relatively speaking, are going to be able to endure that with less pain than others.

I would like you to address yourself with a degree of specificity to the areas where we really are vulnerable. I don't mean necessarily item by item or goods by goods or product by product, but what kind of ammunition can you provide to rebut this suggestion that in sheer economic terms the fear of retaliation is somewhat of a paper tiger?

Mr. PEARCE. Let me try to answer that in two ways. First, by indicating the importance I think we should attach to our export industries. Our export industries are among our most efficient and productive. They offer jobs at the high end of the range in terms of the rewards for people who work in them. It is very damaging to have the export outlets for these industries cut off.

Agriculture is another major area in need of exports. At very large cost we have been restraining our agricultural production to market opportunities. The most dynamic demand sector for agriculture is the export market. If we cannot exploit our comparative advantage in world markets we face the necessity of further acreage restraints because this raises unit production costs, it creates very serious problems for farmers. We cannot lose our export markets for farm products—not just our present export markets, but the enormous potential we have for further development of export markets—without enormous cost.

A loss of imports into the United States would involve, perhaps, greater costs. World trade will not stop because the United States chooses not to take part in it. Other countries will continue to realize all of the benefits that we have identified with international trade.

The United States, cut off entirely from world markets, would lose the restraining influence imports have on domestic prices. We could foresee a period in which the disparity between the performance of our economy would decline sharply in comparison with countries accepting the discipline of foreign trade.

DATA NEEDS

Mr. CULVER. One of the repeated criticisms that we have also heard during the course of these hearings is that the governmental informational role—in terms of the availability of statistics in this area of export-import jobs, the role of multinational corporations, the actual effect of imports on employment in the United States—is, at the present time, deficient in terms of the performance of various agencies that are charged with the responsibility of making available this data upon which we can make some informed judgments and sound public policy can be based.

We hear the complaint from the private sector that they are oftentimes called upon in connection with application of trade adjustment assistance, for example, to provide detailed information that they have difficulty obtaining from any U.S. source. In addition, there is the criticism that our statistical information has not maintained pace with the changing dynamics of the international trading community and its consequences to the U.S. employment picture generally.

I am not unaware of the fact that this is a problem that you are sensitive to and that the Williams Commission found inadequacies in this area.

Could you tell the subcommittee today what sort of studies are currently underway or when you feel it is likely that we can close this current gap between Government's reporting role and private sector needs and requirements?

I think this is also essential, I might add, if we are going to introduce into the current public and political dialog on this subject a more rational understanding of the implications and role of the multinational corporation, for example.

Mr. PEARCE. Mr. Chairman, I can't really respond to the part of your question that goes to the adequacy of trade statistics. I might ask Mr. Garson or Mr. Gates to do that. I will, however, respond in respect to foreign direct investment.

The absence of adequate data which would enable us to determine both, the short-term and long-term effects of foreign investments is very troublesome. The Williams Commission was convinced that foreign direct investment benefits the United States, and I have no reason to doubt that this is true. But I was impressed that the evidence which would serve to demonstrate this is very hard to find though multinational corporations have made a real effort to provide it. So much of the analysis is based on judgments of what would happen absent foreign direct investment that it is hard to make a fully convincing case.

Ted, will you respond to the question concerning data on exports and imports?

STATEMENT OF THEODORE GATES, ASSISTANT SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS, EXECUTIVE OFFICE OF THE PRESIDENT

Mr. GATES. I can certainly respond as a user of statistics. Our Office, I should state, has no direct responsibilities, it is one of the users of foreign trade statistics. In fact, where we are most immediately concerned is in developing adequate data for trade negotiations. We are already beginning well in advance of the next trade negotiation to work out the kind of data that we feel we need.

We spent several years of preparation of data for the last major negotiation. I have to agree with your suggestion that there are present inadequacies. We certainly also see them and suffer from them in the course of our daily administering of trade policy, as well as in conducting trade negotiations. However, the responsibility for the development of our statistics is basically in other agencies.

Mr. CULVER. It seems to me that this is absolutely imperative that we strengthen our capabilities in this area, not only to equip you to perform your well-recognized responsibilities in this area, but in terms of introducing into the political debate and the public understanding of where the United States and national interest truly lies. I think in the present state of confusion it is not surprising that the kinds of pressures that are advanced represent a special pleading that may or may not be compatible with our genuine national interest in this area. I think that the degree of the congressional comprehension in this area is very deficient indeed, and I can't really see where we are going to bring about a greater degree of understanding, enlightenment, or support for the kind of international trading community that we purport to be advocating in the absence of this kind of factual substantiation. I think it is absolutely essential that we bring forward this kind of documentation.

Do you know whether or not there is a general appreciation of the urgency of this kind of information and what steps are being taken to improve data collection and analysis by those agencies that are directly involved?

Mr. GATES. I can't be very specific about the problem, but I would agree with Mr. Pearce that there is a need for better information of

the operations of our foreign subsidiaries. However, the Department of Commerce has recently completed a whole series of studies in which it presented additional data. My understanding, without again being able to be too specific, is that the Department is planning to develop on a continuing basis, rather than a one-time basis or every 5-year basis, better information on the operations of our foreign companies.

THE ORGANIZATION OF THE EXECUTIVE BRANCH TO DEAL WITH FOREIGN ECONOMIC POLICY

Mr. CULVER. One last question. With regard to the adequacy of our organizational structure within the Government to deal on a consistent and efficient basis with the formulation of foreign economic policy, one of the problems that I know you are familiar with and one that in a disturbing way we keep hearing is the multiplicity of voices that speak for the U.S. foreign economic policy interests. This raises the question as to what the U.S. position is in a number of areas. It is not surprising that foreign governments have difficulty knowing in an understandable way what they are being called upon to deal with, but even more disturbing is the absence of a clear understanding on behalf of the various representatives of American interests throughout the world—those ambassadors that are charged with articulating American positions on a whole variety of economic matters.

I was interested in the extent to which steps are currently being taken to avoid this kind of confusion, because it seems to be an essential prerequisite for any effective advancement of America's interest.

Mr. PEARCE. Mr. Chairman, a great deal has been said and written on this subject. I would attempt to answer it in this way.

First, a great number of agencies have legitimate cause to be concerned about trade policy. They represent constituencies that are directly influenced by changes in trade policy. It is not illogical that there should exist some form in which their voice can be heard. I am satisfied that in the trade area, the system of reconciling differences and bringing policy issues up to the point of decision at high level works very well.

The creation of the Council on International Economic Policy represented a great advance. I would urge the Congress to pass legislation authorizing the continued existence of the Council and to fund it so it can perform its role effectively. It has a great deal to offer.

Having said this, I should admit that even the existing mechanism can be improved. We are working hard within the sector of responsibility assigned to us to improve its performance.

I think we are making some progress in that respect.

Mr. CULVER. I might finally conclude by taking this opportunity to say that I think in the hearings that our subcommittee has held during the past year on a variety of matters involving foreign economic policy, that the two problem areas that have emerged as the most pressing need for consideration and improvement are on the one hand the trade adjustment assistance problem as a constructive offset to the protectionist climate, and second, an equal and perhaps of even greater importance, the necessity to improve the organizational structure at least in its operation so that foreign economic policy is more effectively arrived at in terms of the overall national interests, and that it is communicated

effectively to our representatives elsewhere in the world so that we are talking with one voice and not just a chorus of babble in terms of what our interests are. And above all, that we don't have a situation where the tail wags the dog. We must recognize that there is a relationship of interdependency between security and international and domestic economics. I realize that in any institutional arrangement it ultimately comes down to the quality and nature of the personalities involved in its operation, but I think this is something that you should know we on the Foreign Affairs Committee are going to begin looking at later this month.

I don't want to in any way try to get into that before your office has had an opportunity to properly consider your statement for that purpose, but I do feel and want to emphasize how strongly it comes home to us on the committee as a result of our hearings to date, and from other forms of contact and communication that we really have to do a great deal in this area for the national interest.

Mr. PEARCE. Mr. Chairman, in general I agree with what you have said, and I would like to add my personal view that these hearings and the hearings you conducted last year have made a very important contribution to public understanding of these problems. I am sure the hearings you will conduct on organization of the executive branch will have the same result.

Mr. CULVER. Thank you very much. I wish to express appreciation of the subcommittee for your appearance here today, and the subcommittee will now stand adjourned until 2 o'clock next Wednesday.

(Whereupon, at 5 p.m. the subcommittee adjourned, to reconvene at 2 p.m. Wednesday, May 17, 1972).

TRADE ADJUSTMENT ASSISTANCE

WEDNESDAY, MAY 17, 1972

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY,
Washington, D.C.

The subcommittee met at 2 p.m. in room 2172, Rayburn House Office Building, Hon. John C. Culver (chairman of the subcommittee) presiding.

Mr. CULVER. Today the Subcommittee on Foreign Economic Policy begins its seventh and final day of open hearings on the concepts and workings of trade adjustment assistance. Since workers are the most directly affected in both human and structural terms by policies which seek to reform, strengthen, or replace programs designed to assist the industries and retrain workers suffering from trade disassociations, it is important that the subcommittee hear from their representatives.

The subcommittee has already heard from the AFL–CIO and United Steel Workers of America. This afternoon we shall hear from Douglas A. Fraser, vice president, United Automobile, Aerospace & Agricultural Implement Workers of America; and John H. Campbell, associate general counsel, United Rubber, Cork, Linoleum & Plastic Workers of America, AFL–CIO.

Mr. Fraser.

STATEMENT OF DOUGLAS A. FRASER, VICE PRESIDENT, UNITED AUTOMOBILE, AEROSPACE & AGRICULTURAL IMPLEMENT WORKERS OF AMERICA (UAW)

Mr. FRASER. Thank you, Mr. Chairman.

I want to thank you for the opportunity of appearing before your committee. I have filed with the committee a definitive statement on our position on this matter and that statement addresses itself to the issues that were raised by you, Mr. Chairman, on April 24, but I would like to make some general remarks.

(The prepared statement of Mr. Fraser appears on p. 321.)

First, I would like to inform the committee that the UAW recently concluded their convention last week in April and we reiterated our historic and traditional position as being for rational international division of labor and came down on the side of free trade, which as you know is contrary to the present mood of the rest of the labor movement.

And we in our convention adopted a wide range of actions that we think would be appropriate at this point in history and they are attached to our document.

Mr. CULVER. Without objection those will be included in the record.
(The document referred to appears on p. 341.)

Mr. FRASER. I would like to make the observation, however, that while we were able to persuade the 3,000 delegates to our convention that our course of action was the correct one, I am concerned because if we are to maintain our historic policy and attitude toward free trade, we must provide for greater security and protection for the workers.

And I can view the time that no matter what our best efforts are in leadership of UAW, if auto workers become to feel more insecure because of imports, there will be a tendency in our union also to go the road of protectionism and I would hate to see that happen.

The question we raise and the question our membership raises is why should the worker accept the burden of a free trade policy? Why should we do it? Should not that cost be shared by the entire society who benefits by our national policy? When a worker is laid off as a result of imports, when he goes home and has dinner with his family, they wonder how they are going to provide house payment and money for food and clothing. I would hope that our union would never start down the road of protectionism, but I really believe that the only way we can safeguard against that is providing for greater security for those workers who are adversely affected by imports or by our trade program.

I might spend a couple of minutes talking about the problems that relate to the auto industry and the real problem of imports in the auto industry resulted from the fact that the auto industry simply refused to compete with foreign cars.

Last year, I am sure the committee knows, 15.1 percent of all of the cars sold in the United States were foreign-made, and this excludes Canada incidentally. Now our imports and our industry was higher and the percentage of imports was higher than most other industries where the unions are seeking protection through the mechanism, for example, of Burke-Hartke. And the auto industry, of course, is quick to say, "Well, the reason for this situation is because of the high labor costs in the auto industry in the United States vis-a-vis Europe and Japan," and I would like to bring to the committee's attention a statement by Robert Stephenson, former President of Ford International, and he made this statement in an interview with a British magazine in 1970.

He said:

> If you add up all of the elements of a car from tires to engine, glass, seats, et cetera, without counting the raw material, the total number of working hours embodied in a car is between 65 and 70 hours.

Further, he said:

> Hourly wages don't make the difference any more between manufacturers in different countries.

Now, the truth of the matter is that the auto industry in their chase of profits refuse to build smaller cars because they could make more profit building the larger cars and we don't say this with benefit of hindsight, and 23 years ago we published in our union magazine an article that we entitled "Motor Car Named Desire" and we requested of the auto industry and implored upon them that they should build

a small car. There was a market for a small car about the size of a Volkswagen. This was before the days of the Toyotas and Datsun and other cars that are now being marketed in the United States.

They turned a deaf ear to that and finally just a year or so ago, the volume of cars I would imagine in 1971, I think, the 15.1 percent translates into about 1,500,000 cars that are sold in the United States. They finally come forward and GM with the Vega and Ford with the Pinto and American Motors with the Gremlin and Chrysler has not yet produced a small car domestically, and to show the market for those cars in 1971.

It was something like 800,000 Vegas and Pintos and Gremlin collectively sold in the United States. It is also interesting to note that the first 4 months of this year the percentage of imports sold in this country is down to 14.6, certainly still substantial, because 14.6 in this market means again about 1.5 million cars and tens of thousands of jobs.

Another reason why we have fared badly on a competitive front with foreign-made cars is the profit margin in the auto industry when measured against the average in U.S. industry as a whole is much higher. In one of our proposals you will note in the resolution that was adopted by our convention, we proposed a special competitive promotion tax as we identified it, and this is a scheme that—that if a company is earning excess profits and at the same time the import penetration in that industry is great, and the reason for the penetration is because they will not reduce their prices, then we would work out a formula to reduce their profits after taxes so that it would pay them to lower the prices and become more competitive rather than maintaining the high prices.

I want to also bring to the committee's attention experience that I personally had in the closing of a Chrysler plant in Los Angeles. One of my duties and responsibilities in UAW is to direct—is as director of UAW's Chrysler department. Chrysler Corp. has had an assembly plant in Los Angeles and a year and half ago we had 2,308 workers and gradually declined until May 1971 there was 1,188 workers and at that time the Chrysler Corp. announced that they were closing that facility.

They said they were closing the facility because it was no longer efficient. It was no longer efficient because they were only running 20 cars an hour and that is indeed inefficient in the auto industry. But the reason is because in that point in time 42 percent of all of the cars that were sold in the six southern counties of California were foreign-made. That is why Chrysler abandoned that plant.

The Chrysler workers out there said, "Well, rather than abandoning the plant, what Chrysler should have done was invest in building a small domestic car of the Vega-Pinto-Gremlin type. But rather than doing that, Chrysler announced just about the same period of time that they were investing $100 million over the next 3 years in Mitsubishi in Japan and Mitsubishi now builds what we call a Dodge Colt or what is marketed as a Dodge Colt, and I would suggest that it is deceptive advertising.

They never mention that the car is built in Japan. There isn't a die or fixture or part or assembly operation that is performed in the United States. It is done completely and totally in Japan.

And then it was left to the union to deal with this tragedy. And we have made some special arrangements. All the workers 55 years or over we gave them what we call a special early retirement plan, which provides for high benefits until they reach age 65. We also provided for a special consideration that anyone who is 53 years or over at the point they become 55 they would be entitled to this special pension and 218 people were accommodated by that arrangement.

Then we provided for 476 of the workers to transfer into other Chrysler plants throughout the United States and Canada. We have an international agreement in Chrysler. However, in order to do this, this was not part of the regular contract and we finished negotiating the contract in February 19, 1971. And when they closed the plants in May we had to amend the agreement to allow all those workers to take their complete and total seniority in other Chrysler plants.

This took a bit of statesmanship by the local union leaders because it is to their credit that they took all of the pressure that comes to bear when you bring people from afar into your plant and give them their total seniority and they leapfrog over the people that are already in the plant and also I would observe that the Chrysler worker who transferred, the closest the plant to Los Angeles to which he could transfer was 1,700 miles. They were just tearing up his roots, leaving his family and those elderly people who were leaving their grandchildren and sisters and brothers and mothers and fathers.

Well, what did the Chrysler workers say about that and they thought, I think, probably what any worker would say, "What we ought to do is erect tariff walls and what we ought to do is boycott the sale of Colts and Crickets in the United States." And at our convention the Chrysler workers passed out hundreds of these. This is a Japanese flag, as you can see, and superimposed it say, "Chrysler come home. If you wanted to build a small car, build it here in California."

We met with the Chrysler workers and told them that we didn't think that this was a course of action that would be profitable, but I certainly could understand their frustration and anger. They just strike out at the first solution that they think will give them some relief. They are really not even sure of that.

They feel that they have to do something. The workers generally in the United States who are laid off as a result of the trade policy of our Nation are much more vulnerable than European workers and I would make about three points. First of all, the level of unemployment in this country is much higher than it is in many other nations of the world with whom we do trade and, therefore, the opportunity of getting other employment is much less here than it is in other countries. And in the years from 1959 to 1970 the average unemployment in the United States was 4.8 percent and in Japan, Britain, France, Italy, Sweden and West Germany, taken collectively, the average unemployment during that period is 2 percent.

We are comparing apples and apples here, because BLS has made adjustments in this calculation to reflect the U.S. method of calculation of unemployment.

Second, in the European countries when you are unemployed you don't have to worry about health insurance because all of these countries have some form of national health insurance, national health se-

curity. And it might interest the chairman that a Chrysler worker in the State of Michigan, his Blue Cross-Blue Shield premium, which is paid by the company with which he is employed, is now $76.21 a month. Absolutely horrendous. $76.21 a month.

Obviously if the company does not pay for that premium, he can't carry that burden when he is unemployed and isn't entitled to SUB benefits.

The third item is that in America and in most industrial establishments we have a private pension program so that it is effective when you are out of work because of the trade policy in our Nation where in all of the other countries that I mentioned with one exception, no private pensions, they are all government pension, so that it is not an immediate concern when you are laid off.

You will find also in our document a suggestion that the trade adjustment assistance eligibility requirements are much too restrictive. It is very difficult to qualify.

If I can, Mr. Chairman, enter into the record the information that is demanded of a union when you are trying to qualify for adjustment assistance because they ask questions that we don't have the capability of answering. This is information that companies have, but the union does not have and I want to take the time to enter it, if I might.

Mr. CULVER. Without objection it is so ordered.[8]

Mr. FRASER. The benefit level for an auto worker would be 47 percent of his wages and then when you take the wages and fringe benefits together, it would amount to 34 percent. A skilled trades worker in the auto industry, the benefits would result in 37 percent of his wages and 29 percent of his wages including the fringe benefits.

And you contrast that with the benefits that were paid under European Coal and Steel Community, which is up to 100 percent and also in the Common Market benefits those benefits in situations provide up to 100 percent.

We think the moral issue is in a situation where the society benefits as a result of a national policy, they should share the cost of implementing that policy and the policy should not be borne by the worker who is adversely affected by the national policy.

I think that is the principle. As a pragmatic political consideration, and I just view this in terms of my relationship with my constituency, I don't know how much longer we can maintain the position that we are sure is right and feel is right, that is in the national interest, and it is good for our Nation unless the workers can feel some sense of security and protection if they are adversely affected by the policy of our Nation.

I often wonder if an owner of a piece of property taken under the theory of eminent domain, if he was compensated to the extent as an auto worker would be compensated, 34 percent of the worth of the property, he would be outraged.

We think that a proper approach would be a close examination of the Amtrak approach. Amtrak is a creature of Congress and I suggest to you that you took a very difficult situation there and you treated the workers in a civilized manner in terms of his protection and security. You provide for 100 percent of his wages and fringe benefit up to 6 years dependent upon the workers' seniority.

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[8] See Worker Petition for Adjustment Assistance on page 717 of the appendix.

If he is downgraded because he is slotted in another grade, you make up the difference between downgraded rate of pay and the rate of pay that he received. You provide for moving allowances for him and his family in the event that he is moved to a different location to work.

You compensate him for any loss he might suffer in the sale of his home or the breaking of a lease. All of these protections are built-in in the Amtrak agreement.

Then in our document we suggest that in addition to the Amtrak agreement that there be some modifications and strengthening of the protection. C. Fred Bergsten appeared before this committee and was advocating the Amtrak approach and he said:

> The benefits of avoiding additional import restrictions far outweigh the costs of a meaningful adjustment assistance program, which is a necessary component of policy which can do so.

We did not agree with Mr. Bergsten's cost assumptions. We think they are too high, but we deal with that in our document.

Mr. CULVER. Mr. Fraser, at this point I am not clear what aspect of his cost assessments are you critical of, on the protectionist side or on trade adjustment side?

Mr. FRASER. The trade adjustment side.

Mr. CULVER. In the sense of suggestion they are too high?

Mr. FRASER. That Mr. Bergsten's cost assumptions are too high and we go into detail as to why they are too high.

Mr. CULVER. But you agree with his argument?

Mr. FRASER. Yes, and we subscribe to his theory. There are a couple of points that I wish to mention and we detail it in our statement, Mr. Chairman.

Obviously we think there should be changes in the eligibility requirements. We find objections and recommend changes in administrative delays. Obviously we believe that a worker should be made whole in terms of his wages and fringes and seniority. If I could touch upon seniority for a moment, because of all of the testimony I have read I don't know if anyone has touched upon it.

If a worker is unemployed as a result of an import and then he has to seek employment with another employer, he starts there as a new employee and, therefore, in terms of vacation, in terms of holidays, in terms of other fringe benefits he suffers by the fact that he has given up seniority with his original employer and we think that he should be compensated for that.

Another point that I wish to make is that when a worker is unemployed as a result of imports which flows from the fact that a corporation has made investments internationally just in the search of profits, but not in keeping with a national policy, that the investment was designed just to increase profits, then it seems to me that employer should stand the cost of the assistance adjustment and not the taxpayers of the United States.

The chairman raised a question of an early warning mechanism. We agree with that completely and have some suggestion in our document. Mr. Chairman, you asked on April 24 when and on what terms can adjustment assistance operate as a substitute for trade wars and restrictions with competitor nations and I think we made ourselves clear on that, that the worker has to be given that measure of security

so that he does not fear the free flow of trade and would subscribe to this Nation's policy.

We think that to do otherwise, that restrictions are going to beget retaliation and retaliation is going to get counterretaliation and we are going to continue this damaging process until the country is in great difficulty.

Our suggestion is let's not take that first step. Let's not travel that road of retaliation and counterretaliation. The chairman also raised a question, should we internationalize a system of adjustment allowances and our answer to that is in the affirmative and we suggest in our document in considerable detail that it should be internationalized through amendment to the GATT agreements and provide the kind of benefits that are specialized along the lines of Amtrak.

Other specific questions that the chairman raised on April 24 we respond to in our document.

Finally, we want to say that I want to express the gratitude of the UAW for the opportunity of being here and I hope the subcommittee will find its way clear to advocate an adjustment assistance program that is based on the principle that no individual bear a disproportionate share of the cost of a trade policy that benefits our entire Nation.

(Mr. Fraser's prepared statement follows:)

STATEMENT OF DOUGLAS A. FRASER, VICE PRESIDENT, UNITED AUTOMOBILE, AEROSPACE AND AGRICULTURAL IMPLEMENT WORKERS OF AMERICA, UAW

Most of my statement will be addressed to the important and highly pertinent issues raised by Chairman Culver when he opened these hearings on April 24. Before I turn to those issues, however, I should like to sketch out the background for my appearance here.

UAW POSITION ON FOREIGN TRADE

The members of the Subcommittee doubtlessly know by now that the UAW convention held three weeks ago rejected the protectionism to which, regrettably, most of the American labor movement has succumbed. Instead, the nearly 3,000 delegates in attendance reaffirmed the UAW's commitment to the goal of "a rational international division of labor in which each national group of workers shares equitably in the fruits of its contribution to the world's wealth." (The full text of the convention resolution is attached as Appendix A. I hope the members of the Subcommittee will find time to read it carefully because it proposes a wide range of actions—in addition to improvement of adjustment assistance which is the subject matter of these hearings—that we believe to be essential to the establishment and maintenance of a sound foreign economic policy by the United States.)

Although the convention renewed traditional UAW support for liberal trade policies, I must say to you with all the emphasis at my command that, no matter how deeply I and the other officers of the UAW believe in such policies, the UAW will not be able indefinitely to resist the protectionist tide unless our members, together with all other American workers, are effectively shielded against damage to their families' welfare resulting from foreign trade.

Our members' concerns are not difficult to understand. They ask, in effect: "Why should I lose my job and my ability to provide for my family so that you may enjoy low-priced imports? What good will the low prices do me if I have no paycheck? What do you propose to do about my problem if I agree that you will be allowed to buy the imports?"

An offer of benefits that represents a reduction in the living standard of the worker's family clearly is not an answer to those questions.

There is only one morally correct and politically effective answer—a program or adjustment assistance that conforms literally to the principle that no individual should be required to bear a disproportionate share of the burdens arising

out of policies adopted in the interests of the whole nation. Effectuation of that principle requires that workers be made whole—that they be compensated in full—for all losses of wages, fringe benefits, seniority rights, etc. resulting from foreign trade. They should be required to bear no more of the costs of obtaining the gains from international trade for the whole nation than their fair share of the taxes levied on all citizens to finance such a program of adjustment assistance benefits. Only under those circumstances will it be possible to say truthfully that the burdens as well as the benefits or trade are equitably distributed. And only under those circumstances, in my judgment, will it be possible to avoid the danger that the UAW will join the rest of the labor movement in the protectionist parade.

We are proud that the UAW is a democratic organization. I am proud also that my colleagues on the UAW's International Executive Board had the courage, despite widespread protectionist sentiment within the Union, to recommend to the convention's resolutions committee and, through it, to the convention, trade policies that we consider to be sound and responsible. But the leadership of the UAW can only recommend. Ultimately the policies of the Union are decided by the members through the delegates they elect to represent them at conventions. The members, in turn, will make their decisions on national trade policy on the basis of the concern the nation shows for their welfare.

Like most of humanity, our members' first loyalties run to their families. They will do everything in their power to protect their families against harm whether the threat be from international trade or from any other source. If not offered means to safeguard their families that are compatible with the national interest in liberal trade policies, they will turn to protectionism and they will carry their union and, quite likely, the country along with them.

AUTO IMPORTS

Foreign trade is not an academic matter for the members of the UAW, particularly those employed in the auto industry. Last year 15.3 percent of all new passenger cars sold in the U.S. were imported from countries other than Canada. During the first four months of this year such imports decreased to 14.6 percent. The invasion of the domestic market by imports is far larger than in most other industries—a fact that make it difficult to persuade our members that protectionism is not in their best interests.

The high level of car imports is not the result of any substantial advantages inherent in foreign production. While the industry seeks to put the blame on U.S. labor costs, one of its own leading spokesmen has refuted that charge. Robert Stevenson, former President of Ford International, pointed out in an interview with a British magazine in 1970 that:

"If you add up all the elements of a car, from tyres to engine, glass, seats, etc. (without counting raw material), the total number of working hours embodied in a car is between 65 and 70."

He went on to say that because the labor element in total costs is so small:

"Hourly wages don't make the difference anymore between manufacturers in different countries."

The real reason for the large volume of car imports is the deliberate refusal of the American automobile corporations to engage in competition with foreign car manufacturers on the basis of products made in their U.S. plants. They have abdicated not only a large share of the domestic market but also the opportunity to serve the export market with U.S.-made cars. Thus they have damaged the U.S. balance of payments from both sides—higher imports and lower exports—and deprived American workers in both the auto industry and in the many industries that supply it of thousands of job opportunities that could be theirs.

The evidence that U.S. car producers refuse to compete with imports in their domestic market is indisputable. Even though the UAW had pointed out in January 1949, more than 23 years ago, that there would be growing U.S. demand for small cars and repeatedly urged the corporations to produce them, the industry did nothing whatsoever about the matter until the vacuum left at the low-priced end of the market was filled by imports. In 1959 the Big Three producers introduced the so-called compacts. These were not directly competitive in price, size and economy of operation with truly small cars such as the Volkswagen, imports of which continued to increase. Nevertheless, the compacts showed that competition was the answer. The tide of total imports receded sharply after the compacts

were introduced. But the industry soon began to make them larger, more complex and more expensive, thus opening the way for a renewed and sharp increase in the volume of imports consisting mainly of small cars to which the U.S. industry offered no competitive products. It was not until late 1970 that General Motors and Ford introduced such products—the Vega and Pinto, respectively. (Chrysler still refused to compete, preferring to counter imports with its own imports—the Colt from Japan and the Cricket from England.) GM and Ford may have waited too long, however. By the time their small cars entered the market the importers were deeply entrenched with widespread networks of dealer and service organizations.

All through this period, the auto industry's rates of return on investment persistently ran far higher than the average profit rate for all U.S. manufacturing industry while imports continued to flood into the country. Where an industry obtains super-profits while simultaneously its domestic market is penetrated deeply by imports, the conclusion is inescapable. That industry clearly is deliberately refusing to engage in price competition with imports. I include under price competition the manufacture of low-price, low-profit products which the industry studiously avoided until recently. Profit rates reported by GM and Ford indicate that they could well afford to cut prices sharply on the small cars, the Vega and Pinto, that they are now belatedly producing.

I suggest to the Subcommittee that the volume of adjustment assistance payments required and the pressure for protectionism could both be sharply reduced if the auto industry and certain other U.S. industries as well could be induced to engage in vigorous competition with foreign producers.

To that end, the UAW has proposed that refusals to compete be dealt with by imposition of a special Competition Promotion Tax. The tax would apply only to corporations in industries in which excessive profits and substantial import penetration of the domestic market existed side by side. The effect of the tax would be to reduce after-tax profits to levels lower than they would be if the corporations had priced their products reasonably and thereby turned back the tide of imports.

THE CHRYSLER EXPERIENCE

Some months ago, in my capacity as director of the UAW's Chrysler Department, I had the sad duty of trying to minimize the severe hardships inflicted upon a large group of Chrysler workers as a result of Chrysler's refusal to compete.

The workers involved had been employed in Chrysler's Los Angeles plant which was shut down in July 1971.

As recently as October 1970, the plant employed 2,308 workers in the UAW bargaining unit. By May 25, 1971, when the closing of the plant was announced, that number had shrunk to 1,188. The reason was a sharp reduction in Chrysler's West Coast sales resulting primarily from a huge invasion of the car market by imports consisting mainly of small cars. At the time the plant was shut, imports accounted for 40 percent of all new cars being sold in the Greater Los Angeles area. Presumably Chrysler felt that its small remaining volume of sales made continued operation of the plant uneconomical.

The Chrysler Corporation, of course, could have kept the workers employed by producing a small car in the Los Angeles plant to compete with imported cars. By so doing it would have helped the U.S. balance of payments while simultaneously avoiding dislocation of its workers. Chrysler chose instead to meet the problem of imports not by competing with them but by joining them.

Instead of following GM and Ford by producing a small car in the United States, it chose to import the Cricket from its British subsidiary and is investing $100 million in Mitsubishi in order, among other things, to import the Japanese-made Colt.

My staff and I were faced with the task of picking up the pieces on behalf of the workers, some with more than 30 years of seniority, who suddenly found themselves displaced. Among the older workers, 187 were eligible to retire under what we call "special early retirement" which provides for augmentation of their pensions until they reach age 65 and qualify for full Social Security pensions. We persuaded the Chrysler Corporation to agree to qualify another 218 for special early retirement when they reached age 55.

For the rest of the workers, we sought the opportunity to transfer to other plants. We won Chrysler's agreement to transfer them with the right to exercise their full seniority in layoffs and recalls at the plants to which they trans-

ferred. Otherwise few would have agreed to be transferred because, if they were placed at the bottom of the seniority ladder in the plants to which they moved, they would have had high vulnerability to layoffs in strange new communities after uprooting their families from the Los Angeles area.

Transfers with full seniority, however, required amendment of the UAW agreement with the Chrysler Corporation which, under the UAW constitution, required, in turn, ratification of the amendment by the Chrysler membership. We were compelled, in other words, to call upon our members in other Chrysler plants to welcome strangers into their midst at the expense of the job security of those of their fellow workers who had less seniority than the workers transferred from Los Angeles. To the great credit of our Chrysler members, they ratified the amendment. In only 10 local unions out of 102 was there a majority against it.

In all, 476 of the Los Angeles workers accepted the opportunity to transfer. The others apparently were too deeply rooted in the Los Angeles area. Some, undoubtedly, had members of their famlies working at jobs in that area which they did not feel free to abandon. Others may have remained because they were reluctant to break their ties with relatives and friends or because of the costs of moving.

Of those who transferred, 86 crossed the continent to take jobs in Newark, Delaware; 108 went to Belvidere, Ill.; 117 to St. Louis and 163 to Michigan, Ohio, Indiana, New York and Pennsylvania. Five applied for transfers to Canada but only 2 of them, who happened to be Canadian nationals, were admitted by the Canadian immigration authorities.

Those who did not retire or transfer received only supplemental unemployment benefits (SUB) and/or separation pay. (Even those benefits were not available to a few with less than one year of seniority.) When they no longer qualified for SUB, they lost company-paid health insurance for themselves and their families and their company-paid life insurance. Those with less than 10 years of Chrysler service also lost the possibility of receiving a deferred pension when they reach retirement age. Their years of service with Chrysler which they can never retrace, now count for nothing toward their old age security.

WHY WORKERS GO PROTECTIONIST

The losses suffered by Chrysler's Los Angeles workers—including those who transferred as well as those who did not—illustrate why so many workers are inclined so strongly toward protectionism.

The fact is that American workers are particularly vulnerable to adverse impacts from foreign competition—far more so than workers in other industrialized countries.

First, full employment policy in the U.S. is more myth than fact. The record is disgraceful. For the period 1959 through 1970, the unemployment rate in this country averaged 2.4 times as high as the weighted average rate of six of its major trading partners—Japan, Britain, France, Italy, Sweden and West Germany. The U.S. average rate for the period was 4.8 percent. The remaining countries averaged 2.0 percent. Even Italy's average rate, at 3.8 percent, was lower than that for the U.S. West Germany averaged 0.7 percent—one-seventh of the U.S. rate. These comparisons, I should emphasize, are based upon Bureau of Labor Statistics computations which adjust the published rates of the other countries to make them comparable with those for the United States.

Persistently high unemployment, obviously, intensifies workers' fears that, if they should be displaced by imports or because of loss of export sales, they will have great difficulty in finding new jobs and may end up in jobs far inferior to those they lost.

Second, the security of an American worker's family is far more dependent upon his job than is the case for workers elsewhere. This is a result of the inexcusable gaps and inadequacies of the U.S. social insurance system. American workers, through their unions, attempt to compensate for the deficiencies of public social insurance by negotiating private insurance and pension plans as part of their collective bargaining agreements with employers. Non-union firms—with exceptions, lags and usually considerable shortfalls—establish similar plans for their workers.

The United States is the only industrialized nation in either the Communist or non-Communist world that has no national health insurance program. This

means that when an American worker loses his job he loses also his health insurance protection for himself and the members of his family because it covers them only while he maintains his employment relationship. Except for a handful of states, the U.S. has no public sickness and accident insurance program. Such insurance also depends upon the worker's employment relationship and he cannot qualify for unemployment compensation if illness makes him unavailable for work. Public pensions under our Social Security System are so miserably inadequate that private plans, now covering tens of millions of workers, are essential to supplement them. The same is true, although supplementation is not so widespread, of the public unemployment insurance system. Life insurance and other protections for the survivors of deceased workers are also provided under private plans.

Thus, when an American worker loses his job he and his family lose far more than his wage. They are suddenly exposed, with absolutely no protection or with outrageously inadequate protection, to a wide array of life's hazards—hazards against which governments protect workers far more satisfactorily in most other advanced countries.

In addition, for very sound reasons that I need not set out here, the workers' job tenure and promotion rights in the United States are based, to a far higher degree than elsewhere, on their seniority—the duration of their previous employment relative to that of other workers in the same establishment. Thus, if a worker is displaced from a job in one firm and finds a new job in another, he falls to the bottom rung of the seniority ladder with resultant greatly increased vulnerability to layoffs and loss of promotional opportunities. It is pertinent in this connection that American employers are almost entirely free from the governmental, traditional and other inhibitions and direct restraints against layoffs that are widely prevalent in Japan and Western Europe.

Third, trade adjustment assistance in the U.S. is as miserly as the rest of our social insurance system. The eligibility requirements under the Trade Expansion Act (TEA) are so restrictive that only a relative handful of the workers adversely affected by imports has been able to qualify for benefits. Those few who do qualify receive payments that fall far short of compensating them for the loss they have suffered in order to obtain the benefits of the international trade for the nation as a whole. The maximum benefit payable at present is equal to about 47 percent of the average auto worker's wage and about 34 percent of his total compensation including the value of his fringe benefits. For an auto industry tool and die maker, the percentages are approximately 37 and 29, respectively. The European Coal and Steel Community and the common market, in contrast, provide benefits ranging up to 100 percent of wages, plus a variety of other forms of adjustment aids.

Fourth, since American workers are the highest paid in the world, it is natural that they should fear that imported products produced by workers earning far lower wages will undermine their living standards. These fears are aggravated by the greedy, irresponsible and, in the long run, self-defeating propaganda of U.S. employers who seek to frighten workers into giving up demands for improved wages and fringe benefits by telling them that they will lose their jobs to imports made under inferior labor standards elsewhere—which are often the inferior standards maintained by those same employers in their own foreign operations despite use of the same technology as in the U.S.

Under these circumstances—persistently high unemployment, dependence of family security upon job retention, lack of meaningful adjustment assistance and employer-generated fears of damage to labor standards—it is hardly surprising that American workers turn protectionist.

It is not enough to tell them that protectionism is short-sighted. They are not among the fortunate few who can afford to take the long view. Only those with ample resources to tide them over adversity are fully free to balance long range against short run considerations. Workers, by and large, have only their weekly pay checks to feed their families and pay their creditors. They need practical answers to the practical problem of how they will get along if foreign competition eliminates their jobs.

A meaningful adjustment assistance program that compensates workers fully for any and all losses they and their families suffer as a result of foreign competition would provide the answer they need. Enactment of such a program is crucial in order to maintain and regain the support of workers for liberal trade policies.

QUALITY AND LEVEL OF BENEFITS

I turn now to the issues raised by Chairman Culver at the start of these hearings, taking up first the quality and level of adjustment assistance benefits. This is the heart of the matter from both a moral and a pragmatic political standpoint.

The moral issue is clear. No individual has the right to seek for himself the benefits of liberal trade policies at the cost of hardship to others. He has a right to share in the gains from trade only if he is willing to share fully in the costs of obtaining them. He is entitled to ask no more sacrifice from those adversely affected by trade than he makes himself in meeting the cost of protecting them against loss. He should pay his share of the taxes required to meet that cost and they should be burdened with nothing more than their share of such taxes.

This rules out weasel-worded approaches reflected in proposals for adjustment assistance designed to protect workers against "undue hardships." Why should they suffer any hardship at all?

Pragmatic political considerations point in the same direction. From this standpoint the purpose of adjustment assistance is to remove political obstacles to trade liberalization. The obstacles arise in major part out of workers' fear that their incomes and the security of their families may be jeopardized by foreign competition. As has often been noted, the benefits of international trade are widely diffused among the population while the adverse effects are sharply focussed on a relatively small number of people. The result is that it is hard to mobilize vigorous support for liberal trade policies while those who see themselves endangered are galvanized into action. The pragmatist therefore advocates adjustment assistance to buy off the opposition. Adjustment assistance thus becomes a transaction in which the worker receives certain benefits in return for his acquiescense in liberal trade policies.

No transaction will take place, however, unless the price is accepted as fair. Why should the worker welcome foreign competition for the benefit of others if it means *any* loss, no matter how small, to him and his family? He will see any offer of adjustment assistance that provides less than full compensation for his losses as a rotten deal from his standpoint—an attempt to short-change him—and there will be no sale. The pragmatists thus defeat themselves when they seek bargain basement prices. Workers will respond only if they are assured of fair and compassionate help in the face of the problems that foreign competition imposes upon them.

As a nation we repeatedly pay lip service to the principle that none should bear a disproportionate share of the cost of a policy adopted or an action taken in the general public interest. We have given practical application to the principle where property is concerned. When land is taken for public purposes under eminent domain, the owner is entitled to compensation equal to the full value of his property.

An owner of property taken under eminent domain would be outraged if offered 34 percent of its value and the government body involved would be hauled into court. Yet, as noted, 34 percent of his normal remuneration is all the average auto worker would get under the TEA if he loses his job as a result of national trade policies. Unfortunately, such shabby treatment of workers has been so common that few recognize it as cause for outrage and, unlike property owners, workers would find it futile to appeal to the courts to remedy the injustice done them.

In a real sense, the only substantial property a worker possesses is his job. Workers are deprived of their jobs by many actions taken in the name of public policy. Yet I know of only one instance in which the government provided something approaching full compensation for losses workers suffered when their jobs were eliminated.

The Amtrak precedent

That one instance, however, establishes an important precedent which should be extended to trade adjustment assistance. It arose when Congress decided that the national interest required the consolidation of railroad passenger service under a government created corporation—now known as Amtrak. Congress foresaw that some railroad workers would be dislocated and provision was made to protect them. The detailed protections were ultimately worked out by the Labor Department in consultation with the railroads and the unions involved.

They provide that, if a railroad worker is laid off or downgraded as a result of the creation of Amtrak, he is assured of the full wages and fringe benefits applicable to his former job, plus any subsequent increases in wage rates or improvements in fringe benefits. Maintenance of his wage rates and fringe benefits continues for a period of time equal to the length of his previous railroad employment up to a maximum of six years. In addition, if he is transferred to a railroad job at another location, he will receive full reimbursement for all family moving expenses, including compensation for loss incurred in the sale of his home or any penalty paid for cancellation of his lease. Provision is also made for retraining and for lump sum severance pay to those workers who prefer it to income maintenance benefits. The full text of the labor protective provisions of the Amtrak agreement is attached as Appendix B.

There is absolutely no reason in logic or equity why similar provision should not be made for workers dislocated as a result of the nation's international trade policies.

Modifications

I would, however, suggest some modifications in the provisions of the Amtrak agreement that would bring them closer to offering full equity to workers, improve their workability and avoid special hardships affecting older workers.

1. The six-year limitation for maintenance of wages and fringe benefits is arbitrary. There is no reason why this protection should not continue on a time-for-time basis, without limit, equal to the entire duration of the worker's previous employment with the firm affected by foreign competition. Quite likely he might have been able to continue with that firm (and been promoted to a better job) for the rest of his life, if not for the national trade policy which caused his dislocation.

2. The worker's Social Security and unemployment compensation rights for the period during which he is entitled to maintenance of his wages and fringe benefits should be protected. He should be credited under both programs with the wages he would have earned had he remained in the employment from which he was displaced (or, if he is downgraded or placed on short workweeks, with the wages he would have earned if he had remained on his former job or worked full time). Workers on layoff would need to be credited with wages for unemployment insurance purposes only during the base period required to qualify them for benefits upon the termination of their income maintenance periods. Wages credited under either program as a result of work with other employers, of course, would be offset against the credits receivable as adjustment assistance.

3. Workers engaged in retraining under the adjustment assistance program should have their wages and fringe benefits maintained until they complete the retraining program even if the maintenance period otherwise should end earlier.

4. Compensation should be paid for loss of valuable seniority rights. The worker, obviously, will have lesser seniority on any new job he takes than he would have had if he had remained on the job from which he was displaced. This will make him more vulnerable to layoffs, reduce his promotional opportunities, jeopardize his rights with respect to certain types of fringe benefits (e.g., the duration of paid vacations is usually graduated based upon seniority). Equity therefore requires that he receive compensation for these losses if he has not been recalled to the job from which he was displaced by the end of the period during which his wages and fringe benefits were maintained. Such compensation should be graduated on the basis of the amount of seniority he would have had at the time his income maintenance period expires. I am not prepared at present to suggest a formula that could be used to determine the amount to be paid per month or year of lost seniority but it should be possible to develop one that would yield a reasonable approximation to justice.

5. A relocation bonus should be paid to those workers who move from one community to another in order to obtain new employment. Such a bonus would be in recognition of the fact that relocation almost always involves hardship in the rupture of family and community ties, removal of children from the schools to which they have been accustomed, adaptation to strange new surroundings, quitting of jobs by other family members, etc. Provision for payment of such a bonus would have desirable side effects. It would induce some workers to move to new jobs who otherwise would be able to find no suitable new employment. Thereby, it would reduce the cost of wage and fringe benefit maintenance for them. Relocation grants, in addition to reimbursement of moving expenses, are paid under a number of European programs.

6. Job and community "prospecting" costs should be reimbursed. When the public employment service refers a worker to a job in another community (or when it certifies as bona fide a job offer made directly to the worker), he should receive payment for travel costs to visit the establishment to investigate the offer. If he tentatively decides to accept the job, travel costs should be paid for himself and his wife (or for a woman and her husband) to visit the community involved to look into such matters as housing and schools and other community facilities. Reimbursement for such expenses would also encourage worker relocations that otherwise would not occur. With respect to expenses for the spouse for "community prospecting," Sweden has found that such prior investigation of the community increases greatly the likelihood that the family, once moved to it, will remain there. Thus, the major costs of relocation are less likely to be wasted.

7. Special provision must be made for older workers whose age makes it unlikely that they will be able to obtain suitable new employment. If aged 55 or older and certified by the employment service as unlikely to be placed in suitable employment, such workers should have their wages and fringe benefits maintained until they reach age 65, the normal retirement age, regardless of their length of service with the former employer. Continuance until age 65 might be conditioned, however, on a minimum period of employment with the firm from which the workers were displaced, possibly one year.

Costs

How much would it cost to provide Amtrak-type benefits (including the proposed modifications) for workers dislocated by foreign competition?

I fully agree with the conclusion stated by C. Fred Bergsten to the Subcommittee that: "The benefits of avoiding additional import restrictions far outweigh the costs of a meaningful adjustment assistance program, which is a necessary component of a policy which can do so."

I think, however, that his estimates of the costs of adjustment assistance for workers are far too high. To explain why I think so, I will start with his assumption of 60,000 jobs lost per year (which might in itself be too high as a reflection of normal experience) and I will assume, further, that Amtrak-type benefits are provided for the affected workers. (The additional costs resulting from the modifications in benefits proposed above would have only a relatively small effect on costs.)

1. Mr. Bergsten assumes that the number of workers entitled to adjustment assistance will be equal to the number of jobs eliminated by foreign competition. But part of the reduction in work forces resulting from such competition would be accomplished through attrition—quits, deaths and retirements. Attrition, in fact, would probably account for a large part of the total reduction in most cases because invasion of domestic markets by imports tends to be a gradual process. In some cases, and perhaps in a large proportion, the relationship between the growth of imports and attrition rates would be such as to avoid displacement entirely.

2. Mr. Bergsten assumes that all the affected workers would be eligible for benefits for 6 years. However, if duration of benefits is on a time-for-time basis equal to duration of previous employment, the probabilities are overwhelming that average benefit duration would be far shorter than 6 years. In the vast majority of cases, as is borne out by experience under the TEA and the APTA, only a small proportion of the establishment's total work force would be dislocated. Under those circumstances, the workers affected would tend to be those with the least seniority. In a great many cases none of the workers affected would have as many as 6 years of seniority. A recent breakdown of Ford blue collar workers, for example, shows that 28 percent had less than 3 years of company service and more than 50 percent had less than 7 years. (The data do not permit a break-out of those with less than 6 years.) Only in those rare situations where a complete establishment were shut down because of foreign competition would there be likely to be affected any significant proportion of workers with 6 years of seniority or more. Examination of the seniority of the workers who drew TEA benefits would provide a basis for an estimate of average duration of eligibility which, I am sure, would turn out to be far less than 6 years.

3. In one of his examples, Mr. Bergsten assumes that none of the displaced workers find other jobs. In his remaining examples he assumes that only half of them do.

His calculations appear to assume that all the workers who find other employment do so immediately upon being dislocated while all of the rest remain

jobless for the entire 6 years. This is evident, for example, from Column B of his Table 2. It shows $300 million ($10,000 each for 30,000 workers) as the first-year cost. That figure would mean that no cost was incurred for the other 30,000 who "relocate," i.e., they must have found jobs before receiving any benefits. His "steady state" figure in the same column is $1.8 billion (6 times $300 million) which would mean that $300 million is paid each year after the first to half the workers displaced at the beginning of the 6-year period, i.e., the 30,000 unemployed during the first year remain unemployed throughout the six years. More likely, each succeeding period would find a smaller proportion of the displaced workers still unemployed.

It is, of course, inconceivable, even under seriously adverse general economic conditions, that half would remain unemployed throughout the 6 years he assumes they would continue to be eligible for benefits. Some would find new jobs almost immediately. The vast majority probably would be reemployed within one year. Even in 1971, when unemployment was abnormally high, only 10.4 percent of the jobless remained unemployed for more than 26 weeks—and that figure includes persons with no previous work experience. A condition for receiving adjustment assistance benefits, of course, would be that the worker be available for work and accept other suitable employment offered to him. Even if it be assumed that workers receiving Amtrak-type benefits would feel freer than others to reject unsuitable jobs, it is highly unlikely that any significant number would remain unemployed for as long as a year. (It should be noted that the economy loses rather than gains when workers accept unsuitable jobs which involve underutilization of their capacities.)

4. Given the likelihood that the great majority of displaced workers would be reemployed within a year through the normal operation of the labor market, Mr. Bergsten's estimate of retraining costs also appears to be exaggerated. His calculations assume that 25 percent would require retraining at public expense (for a full year in each case). The actual proportion would probably be far smaller, and the average duration of training would probably be shorter.

5. As Mr. Bergsten recognizes in his text but not in his table, whatever the costs of adjustment assistance, there are offsetting savings which would make the net costs substantially lower. Adjustment assistance benefits would be paid in place of unemployment compensation, welfare payments, food stamps, surplus commodities and charity that many dislocated workers and their families would otherwise have to obtain in order to survive.

In order to present a balanced picture, it should be noted that there are also certain offsets to the drastic reduction of Mr. Bergsten's estimates called for by Point 3 above. Some proportion of the workers who would obtain other employment might again be laid off while still eligible to claim adjustment assistance benefits. Based upon experience with duration of unemployment, however, the average length of such subsequent periods of unemployment would be a matter of weeks rather than of years. In 1971 duration of unemployment was less than 5 weeks in nearly 45 percent of the cases.

There would also be an offset to reemployment savings for those workers who took jobs paying lower wages or involving inferior fringe benefits. Under an Amtrak-type adjustment assistance program, those workers would be entitled to supplementation of their wages and fringe benefits. The cost per worker, however, would be a small fraction of the cost of the full adjustment assistance benefits that would have been payable had those workers remained unemployed.

In addition, workers downgraded to lower-paying jobs within the same establishment would also be entitled to supplementation. This cost, however, probably would be a negligible proportion of the total.

Aside from qualifications with respect to reemployment savings, a further qualification is needed to take account of the fact that, as pointed out later in this statement, benefits should be provided for workers dislocated as a result of reductions in exports as well as increases in imports. I know of no data that would indicate the number of such workers. It seems to be unlikely, however, that it would be as large as the number affected by imports.

Even if it were, the above analysis of Mr. Bergsten's estimates suggests that the ultimate total annual cost would be much nearer to his first-year than to his "steady-state" figures.

The amounts involved, in any event, are so far below the economic—to say nothing of the political—costs of protectionism as to make Amtrak-type adjustment assistance one of the best bargains this country could buy. Given the present

mood of workers, anything less than such adjustment assistance benefits is likely to hand the protectionists the victory they seek.

ELIGIBILITY CRITERIA AND ADMINISTRATIVE PROCEDURES

There is general agreement that eligibility criteria for adjustment assistance under the TEA are far too restrictive and that the procedures required under the Act result in intolerable delays in the delivery of benefits. The defects of the pertinent TEA provisions are set out in detail in the report of the Williams Commission and the papers prepared for it, as well as elsewhere. There is therefore no necessity to review them here. There is also agreement that, while procedures under the Automotive Products Trade Act (APTA) were also needlessly cumbersome and time-consuming, the eligibility criteria under that Act were far more satisfactory than those of the TEA.

Eligibility criteria

The APTA provided, in essence, that, if there were a decline in U.S. output of the product concerned and either an increase in imports or a decrease in exports (from or to Canada), a direct relationship was presumed to exist between the dislocation and the operation of the automotive trade agreement with Canada, subject to being overcome only by a Presidential finding to the contrary.

The reasons for covering dislocation related to decreases in exports, as well as increases in exports, were cogently presented in the paper on adjustment assistance prepared for the Williams Commission by Marvin Fooks. The pertinent excerpt from his paper is attached as Appendix C.

The nature of the eligibility criteria has important bearing upon the time required to deliver benefits after application has been made. If the eligibility criteria are unduly complex, the likelihood is that considerable time will be consumed in collecting the facts required to determine whether the criteria have been met in a particular case. It is therefore imperative (1) that the criteria be as simple as possible and (2) that, to the greatest extent possible, the data required for application of the criteria be collected in advance on a routine basis.

I suggest that a dislocated worker (defined as one who has been permanently separated, laid off, downgraded or placed on short workweeks) applying for adjustment assistance be deemed eligible if:

1. There has been a decrease in U.S. output of a product made by his firm accompanied by an increase in imports or decrease in exports (or both) of the product and his firm's output of the product have been reduced from a level reached within the preceding two years; and/or

2. His firm experienced a decrease in output of a product during the preceding two years which was associated with:

(*a*) reduced sales to a customer or customers who initiated or increased purchased of the product from non-U.S. sources and/or

(*b*) a decrease in its export sales of the product.

Criterion 1, above, is essentially the same as that applied under the APTA. Criterion 2 is needed for a variety of reasons. To give one example, the product classes used under Criterion 2 will inevitably cover a range of individual products varying in their characteristics from firm to firm and even within firms. While U.S. output of the class as a whole may be unaffected despite increased imports or decreased exports, individual variants of products within that class may be particularly vulnerable to foreign competition, e.g., foreign producers concentrating on such variants may be able to offer them at a lower price, the foreign item may have a unique characteristic that meets a special need of particular kinds of users, etc. Workers adversely affected by such forms of foreign competition should be eligible for adjustment assistance.

If deemed necessary, the proposed criteria could be made rebuttable presumptions, as under the APTA. For example, the applicant for benefits could be held ineligible if it were found that his firm had shut down because losses on products other than those affected by international trade made it impossible to continue the business. I question, however, whether enough would be gained by making the presumption rebuttable to offset what would be lost as a result of added complexity.

Administration of criteria

Administration of the criteria would be greatly facilitated if, as the Williams Commission proposed, an Office of Trade Adjustment Assistance were created.

(Such an Office, as the Commission also proposed, would, of course, have broader responsibilities than administration of the criteria.)

The Office would have to maintain close relationships with the public employment service and the State employment security agencies. The Office could collect and furnish to the employment security agencies at frequent intervals the basic data needed for administration of Criterion 1, i.e., data on production, imports and exports of products involved in foreign trade. The Office should be given power, similar to that possessed by the Census Bureau, to require firms to provide the needed information on their production and their export sales. (This information would be of great value for a variety of purposes unrelated to adjustment assistance. Much of it may already be available under existing statistical programs.) Data on imports presumably could be furnished by the Customs Bureau.

The Office, through the Labor Department, could instruct the employment security agencies to ask all applicants for unemployment insurance or other benefits (as well as applicants for trade adjustment assistance) whether they believed their unemployment or underemployment was due to foreign trade. Even if they express no such beliefs, the possibility of eligibility for trade adjustment assistance should routinely be explored on the basis of the data described below. Quite likely, the employment security office would already know the products made by the firms within its area or it could readily ascertain them from industrial directories and other sources. Comparison of the employing firm's products with the data supplied by the Office with respect to production, exports and imports would make it possible to ascertain whether or not any of the firm's products were in a category in which a reduction in U.S. production was accompanied by an increase in imports or a decrease in exports. If that were the case, the application for unemployment insurance would automatically be made an application for adjustment assistance. The employment security agency would then inquire of the Office whether reports on hand from the firm revealed a decrease in its output of the product in question. If no decrease were shown, the firm would be queried directly to ascertain whether a decrease in output had occurred since the period covered by its latest report to the Office.

Thus Criterion 1 could be applied, at least in the great majority of cases, with no delay whatsoever. Most of the needed data would already be in hand and inquiries to the Office and, if necessary, to the firm could be made during the period required to process the first adjustment assistance check.

Criterion 2 could be administered with equal simplicity and speed in most cases if, in addition to the data mentioned above, the firm were required to report on the same form whether it had suffered a loss of sales to any customer which it believed to be attributable to the latter's purchase of imported products and to name the customer in question.

Once any worker in any firm had been found eligible for adjustment assistance, further steps should be taken to assure that other workers of the same firm are made aware of their possible eligibility for similar benefits and to facilitate the processing of their applications. First, all employment security offices in the same area should be advised that workers from the firm in question may be eligible for adjustment assistance and that their applications should be processed accordingly. Second, the firm should be required to post a notice advising its workers to apply for adjustment assistance if separated, laid off, downgraded or placed on short workweeks. Third, a determination should be made of the number of the firm's workers who may be eligible for adjustment assistance. Fourth, procedures should be set in motion to determine, if more than that number of workers should be dislocated, which among them are eligible.

Determination of the number of eligibles is necessary because factors other than international trade may be at work simultaneously to cause dislocation. For example, a firm making products adversely affected by import competition may, for other reasons, suffer a concurrent decrease in sales of other products that it makes. Determinations under the TEA and, formerly, under the APTA did specify the numbers eligible.

Identification of the particular individuals eligible among a larger number dislocated presents complex and difficult problems. For example, a plant may lay off 10 low-seniority workers today because of import competition and, a few weeks from now, lay off 20 more with higher seniority because of a decrease in sales of other products unrelated to foreign trade. That decrease in sales would have caused the layoff of the 20 workers with the least seniority in any case. But, had foreign trade not been a factor, the 10 with the highest seniority among those

affected by the second layoff would have retained their jobs. The 10 lowest-seniority workers first laid off may already have been held eligible for adjustment assistance. But the 10 with the highest seniority who were laid off later are, in fact, the victims of foreign trade and therefore should be eligible for adjustment assistance benefits.

The identification problem has not been satisfactorily resolved under the TEA and the APTA. The practice has been to continue to pay adjustment assistance benefits to the low-seniority workers first certified as eligible while denying them to higher-seniority workers laid off later.

The proposed Office of Trade Adjustment Assistance, if established, should be able in a short time to acquire the experience and the expertise both to determine the numbers of individuals to be held eligible in a particular case and to identify the patricular persons who should receive the benefits. Legislation should give the Office broad discretion to make the necessary determinations. In time, the Office might be able to devise regulations and guidelines which would enable the employment security agencies to make such determinations.

The criteria and procedures outlined above should make for prompt delivery of benefits in the vast majority of cases. Situations will remain, however, where further investigation is required to determine eligibility. Because prompt delivery of benefits is crucial, such investiagtions should not be permitted unduly to delay the beginning of benefits. Uncle Sam is big enough and strong enough to recover any payment that later may turn out to have been made improperly. I therefore would urge that payments be made immediately (1) in all cases where the worker expresses his belief that his dislocation is due to foreign trade and (2) in all other cases where preliminary examination of the facts by the employment security agency suggests a reasonable possibility that he may ultimately be found eligible for trade adjustment assistance. In order to avoid discouraging workers from making their claims for adjustment assistance, no penalty should be assessed against any worker who makes repayment with reasonable promptness (in the light of his financial circumstances) of any benefits to which he was not entitled. Penalties should be imposed only where the claim clearly was made with intent to defraud the government.

Provision must, of course, be made for workers and their unions to appeal determinations of ineligibilty for adjustment assistance or determinations that yield lesser benefits than the worker believes he is entitled to receive. In order to be meaningful, the right to appeal must be accompanied by the right to access to all data pertinent to the appeal. Under the TEA and the APTA, data supplied by certain employers have been held to be confidential and, on that basis, have been withheld from the applicants. The latter were thus deprived of the ability to pursue their rights because they, obviously, were not able to rebut evidence of whose very nature they were unaware. New adjustment assistance legislation should be designed to facilitate rather than thwart efforts of workers to obtain the benefits intended for them. This requires that all pertinent data, without exception, be made available to workers and their unions.

ADJUSTMENT ASSISTANCE AND INTERNATIONAL CORPORATIONS

I have emphasized the principle that the nation is obligated to make whole those who would otherwise suffer loss as a result of a policy adopted in the national interest. From this it follows, as I have noted, that workers must be compensated fully for losses of wages, fringe benefits and seniority rights suffered as a result of national trade policy. It follows further that the cost of making them whole should be financed out of general revenues, with the affected workers bearing no more of the costs of the adverse impacts of trade than their fair share of the taxes required to finance adjustment assistance benefits.

An important exception

There is, however, one important exception with respect to the financing of adjustment assistance. Where an international corporation causes dislocation of its workers by its foreign investments, the corporation rather than the taxpayers should bear the primary responsibility for meeting the costs of adjustment assistance.

Such foreign investments are motivated solely by the interests of the corporation involved. They would not be made if the corporation did not expect to profit from them and there is no law that requires any corporation to make any such investment. National policy and the national interest play no roles, except

as rationalizations, in corporate decisions to invest abroad. In fact, there are strong reasons to believe that such investment, more often than not, runs directly contrary to the national interest. Some of those reasons are spelled out, with particular respect to the auto industry, in the UAW convention resolution attached as Appendix A.

That resolution proposes, among other things, that U.S.-based corporations intending to invest in other countries be required by law to obtain a license from the government before making the investment. One of the conditions for issuance of a license would be that the corporation guarantee to make whole any of its U.S. workers who suffer dislocation as a result of the investment, whether because of a decrease in exports from its U.S. plants or because of an increase in imports from its foreign operations. It would be advisable, in addition, to require the corporation to be similarily responsible to workers in firms supplying its U.S. plants who are affected by the foreign investment.

Whether or not the licensing requirement is legislated, it is clear that the corporation making the investment, rather than the U.S. taxpayer, should bear all costs resulting from the investment, including the costs of adjustment assistance.

It is a fundamental principle of economics that no action can be considered economically sound unless the benefits involved exceed the costs. The difficulty with many business decisions is that calculations of cost-benefit relationships are distorted because the firm involved is able to shift part of the costs to others—to its workers or the public. Thus, a decision that is profitable for the corporation may be grotesquely unsound economically when all costs—including social costs—are taken into account.

This is certainly true of decisions concerning foreign investment where the firm is able to shift to its workers and the taxpayers the costs of dislocations resulting from the investment. The solution, in the jargon of economists, is to "internalize the externalities"—to compel the corporation to bear *all* costs flowing from its actions and thus to assure that it will take the full cost into account before making an investment decision.

The case of the Chrysler Los Angeles plant is directly pertinent in this connection. Would Chrysler have considered it profitable to invest $100 million in Mitsubishi for purposes of importing the Colt into the United States if it had been required to pay also for Amtrak-type adjustment assistance benefits for its displaced Los Angeles workers? Or would it have decided instead to invest in modernization of the Los Angeles plant in order to produce the Colt there? If the latter, the decision to invest in Mitsubishi was wrong economically as well as socially.

I believe Chrysler's decision would have been different if it had faced the necessity to make its Los Angeles workers whole. Even without that necessity, GM and Ford decided it would be profitable to produce the Vega and the Pinto here rather than abroad. On that basis, I think it reasonable to conclude that the added cost of adjustment assistance flowing from production in Japan would have tipped the balance in favor of production in the U.S.

But even if that were not so in the Chrysler case, it would still remain true that foreign investment decisions would be made on a sounder basis if the corporations making them had to take adjustment assistance costs into account on their own books instead of shifting the costs of adjustment to their workers and the taxpayers.

It is therefore imperative that a distinction be made with respect to financing adjustment assistance as between those costs arising out of national trade policies adopted in the public interest and those arising out of decisions by corporations for their private interests.

Although U.S.-based international corporations should be required to bear the cost of adjustment assistance benefits resulting from their foreign investments, administration of the benefits for their workers, nevertheless, should be a public responsibility. The corporations would have a strong financial incentive to minimize costs by improperly depriving their workers of benefits. The government, therefore, should provide the benefits and then obtain reimbursement from the corporations, including reimbursement for administrative costs.

EARLY WARNING

"Early warning" mechanisms, mentioned by Chairman Culver, could be helpful in facilitating and expediting the adjustment process—particularly in a full

employment economy in which there were other jobs available to which workers facing the prospect of dislocation could be promptly referred or for which they could be promptly trained. Early warning might make it possible to avoid dislocation entirely in many cases and to minimize its seriousness in others. A firm about to be, or just beginning to be, affected by foreign competition could be helped to improve its product or to cut its costs or to shift into other lines of production before laying off workers. If the firm itself could not be helped, other job opportunities might be created elsewhere in the community to absorb the workers whose jobs were about to be eliminated by foreign competition. The workers affected could be retrained for available new jobs, as they are in Sweden, while they continue in the employment about to be eliminated by imports.

An early warning mechanism cannot be effective, however, unless employers can somehow be induced to cooperate with the appropriate authorities, particularly the manpower agencies. In other countries, Sweden being a notable example, employers feel obligated to notify the manpower agencies immediately when they foresee reduction-in-force layoffs. Employers in other countries also notify the manpower authorities promptly when they intend to hire additional workers. Some countries, in fact, have abolished private profit-making employment agencies so that the public employment service will have the fullest possible information regarding both the supply and demand sides of the labor market, thus enabling it to minimize the duration of both unemployment for workers and idleness of machines for employers.

In the United States, unfortunately, employers do not cooperate to anything like the same degree with the public employment service. In fact, some corporations deliberately withhold cooperation. A spokesman for General Motors said some years ago: ". . . we do have our own employment activities which handle the bulk of our employe recruitment, and we see no reason for burdening government with the performance of business functions which we can do satisfactorily at our own expense."

Some of the proposals made earlier in this statement could help partially to meet the need for early warning. The current data on production, exports and imports by product and by firm, which it was suggested be collected by the proposed Office of Trade Adjustment Assistance for purposes of applying eligibility criteria, would also furnish early signals in many cases of industries and firms whose workers are likely to be in need of help.

Provision of Amtrak-type adjustment assistance benefits for dislocated workers would tend to eliminate employers' fears that their workers would quit prematurely if early warning were given of prospective reductions-in-force. Assured of such benefits, workers would be freed of the compulsion to grasp at any job available, even a substantially inferior one, rather than risk unemployment when the reduction-in-force took effect. The employer could therefore be confident of having his existing work force essentially intact as long as he continued to need it even if he gave early warning.

Nevertheless, in view of habitual non-cooperation of employers with the public employment service, an additional measure is necessary to assure that cooperation is forthcoming. Employers should be required to give their workers and the public authorities advance notice of reduction-in-force layoffs, within a week after the decision to lay off is made where the date of the decision can be established, but, in any event, not less than four weeks before the layoff takes effect. Failure to give such notice should make the employer liable for continuance of the workers' pay and fringe benefits for an equivalent period. Notice of layoff, with pay in lieu of notice, is common practice with respect to white collar workers in the United States. In other countries it is either common practice or legally required with respect to blue collar workers also. There is no reason why such notice should not be required with respect to all workers in the United States.

While the principle of advance notice is sound with respect to all kinds of layoffs, I should emphasize that I am proposing, in the present context, that advance notice be legally required not for short-term, temporary layoffs but only for reduction-in-force layoffs, i.e., layoffs which are expected to continue indefinitely. Such layoffs, with rare exceptions, are foreseen and planned in advance, which means that notice can be given in advance.

In order to facilitate the adjustment process, the employment service must also have the fullest possible information with respect to the demand side of

the labor market. The UAW, for possibly as many as 15 years, has been urging that the employment service be equipped with such information by requiring employers to list job vacancies to be filled by new hires (as distinguished from recalls of laid-off workers, transfers and promotions) with the public employment service. Since such a requirement could be imposed universally only by legislation, we have urged that, until Congress acts, the President impose it on government contractors and their subcontractors by executive order. Last year, President Nixon, apparently panicked by high unemployment among Vietnam veterans, finally did require such contractors and subcontractors to list their vacancies. With the validity of the idea now belatedly acknowledged by the White House, I hope Congress will soon extend the requirement to all employers.

SUBSTITUTE FOR TRADE WARS

Chairman Culver asked on April 24, "When and on what terms can adjustment assistance operate as a substitute for trade wars and restrictions with competitor nations?"

The answer, as I see it, is implicit in the earlier part of this statement. Pressure for protectionism tending to cause the U.S. to adopt restrictionist policies arises in major part out of workers' fears of dislocation resulting from foreign competition. Restrictionism on our part invites retaliation by other countries which, in turn, triggers counter-retaliation—and so on in an endless and mutually damaging process.

Elimination of the fear of dislocation would help to avoid the start of that process. Thus, a sound and adequate program of trade adjustment assistance is, in my opinion, the single most crucial element in a program designed to avoid disruptive and destructive trade wars.

I must emphasize, however, the need to supplement adjustment assistance with a number of other measures in order to obtain for the peoples of the U.S. and of the rest of the world the benefits of liberal trade policies. The rise of international corporations, in particular, raises wholly new problems that must be dealt with promptly and effectively. Some of the required measures are spelled out in the UAW resolution attached as Appendix A.

Traditional theory obsolete

It is pertinent in this connection to call the Subcommittee's attention to the need for a fundamental rethinking of traditional trade theory in order to develop policies suited to the facts of the modern world economy. The assumptions underlying the accepted theory are now clearly obsolete.

Among those assumptions are full employment, immobility of the factors of production, competitive markets governing prices and the allocation of resources and (implicitly in the "pure" version of the theory) substantial international uniformity of wage rates (the last indicated by the fact that Ricardo discussed comparative advantage not in terms of money labor costs but in terms of days of labor required to produce various commodities).

Full employment, obviously, is more wish than reality both in the advanced United States and in the economically underdeveloped countries. Tne notion that capital is immobile internationally was never completely true and has been rendered totally obsolete by the rise of the international corporation. The idea that the invisible hand of competition would assure that the benefits of trade would accrue to the world's workers and consumers is negated by the growing domination of world production and trade by those same international corporations. They function as monopsonists in the world's labor markets—taking full advantage of the fact that wage rates are, in fact, far from uniform—searching out the areas where labor costs are lowest, exploitation of workers is least restrained and the degree of social responsibility required of them is in general minimal. At the same time they operate, to a great extent, as oligopolists in the world's product markets, selling their products everywhere at the inflated prices of shared monopolies. Thus they deny to workers and consumers alike the benefits that the theorists envisioned.

Further departures from the ideal of comparative advantage result from the fact that the international corporations are often able to blackmail governments into giving them all sorts of artificial and anti-competitive advantages in the form of subsidies and tax and other concessions including restrictive labor legislation.

Given these facts, the Subcommittee would perform a valuable service if it would help to prod the trade theorists into looking at the facts of today's international economy.

ADJUSTMENT ASSISTANCE ELSEWHERE AND ITS INTERNATIONALIZATION

Another question asked by Chairman Culver on April 24 was: "How do our programs compare with those in effect in other advanced economies, and should we seek to internationalize the adjustment process in some way, perhaps by moving towards agreement on desirable minimum goals?"

Programs of other countries

We have not been able to study in detail the adjustment assistance programs in operation in other countries. We do know that the countries belonging to the European Communities (EC) recognized early the essentiality of such assistance as a pre-condition for removal of trade barriers. We know also that the EC programs provide far more generous benefits than does our TEA.

As previously noted, the European Coal and Steel Community (ECSC), for example, provides adjustment assistance benefits as high as 100 percent of the dislocated worker's former wages, plus a variety of other forms of aid. In commenting on the operations of ECSC, the British *Economist* for January 15, 1972, said: "The ECSC has done a superb job running down the mines. Without action on the European scale, the mines could never have been closed so fast with so little distress. The number of men in the Belgian pits around Mons was halved in two years, while the ECSC paid a grant of £200 to each miner put out of work and topped up his unemployment pay if he remained unemployed. The ECSC also made grants for the kind of development needed to attract new industry. With the help of the fund, textiles, shipbuilding and other declining industries may now be run down in the same way."

The Rome Treaty of 1957, which established the European common market, provided for the creation of a European Social Fund to finance adjustment assistance. In its first 10 years that Fund provided assistance to 1.3 million workers. The terms of the Treaty clearly call for 100 percent compensation for lost wages in at least certain circumstances. Article 125 of the Treaty reads in part as follows:

1. At the request of a Member State, the Fund shall, within the framework of the rules provided for in Article 127, cover 50 per cent of expenses incurred after the entry into force of this Treaty by that State or by a body under public law for the purpose of: (*a*) ensuring productive re-employment of workers by means of: occupational re-training, resettlement allowances; and (*b*) granting aids for the benefit of workers whose employment is temporarily reduced or wholly or partly suspended as a result of the conversion of their enterprise to other productions, in order that they *may maintain the same wage-level pending their full re-employment.* [Italic supplied.]

The income maintenance benefits paid under other circumstances as well, so far as we have been able to determine, appear to be far more nearly adequate than those made available to the relative handful of workers who have been able to hurdle the eligibility obstacles under our TEA.

Europe, in general, finds it much easier to cope with dislocation than we in the U.S. because of much lower rates of unemployment and because manpower programs in a number of European countries are vastly better than ours. The spirit in which Sweden, in particular, approaches the problem of assisting workers to adapt to changing economic circumstances could well be taken as the model for U.S. attitudes. Speaking to the Detroit Economic Club some years ago, Tage Erlander, then Prime Minister of Sweden, said that Swedish workers:

> ". . . have a very positive attitude toward rationalization and relocation of industries.
>
> "This attitude might at first glance be looked upon as surprising, because all of these measures, useful in themselves, also are creating great problems. The private citizen may get into difficulties of various kinds.
>
> "But if the citizen can trust the society when he comes into that situation, then his attitude will be positive. We look upon it as a duty of society to protect an individual in a situation for which he is not himself responsible. Our philosophy is that the rapid and necessary changes must not create fear."

While Mr. Erlander referred specifically to rationalization and relocation of industries, the same principle applies to changes in trade patterns. Sweden—

having had full employment almost steadily for more than 30 years, and with a manpower program that is probably the most advanced in the world—is in the enviable position of being able, without arousing serious worker resistance, deliberately to encourage imports that replace inefficient low-wage industries so that the workers can be transferred to more productive and better-paying jobs.

Internationalization of adjustment assistance

The U.S. and other major trading nations have a clear interest in universalizing Amtrak-type adjustment assistance. The political obstacles to trade liberalization arise in all nations primarily out of fears of dislocation. Elimination or reducton of trade barriers thus depends everywhere, to a major extent, on elimination of the fears. Every exporting country therefore has a strong interest in establishing genuinely adequate adjustment assistance in all its actual and potential foreign markets. It would be in the common interest to amend the GATT agreement to require all member nations to provide Amtrak-type adjustment assistance. The UAW proposal for such an amendment to the GATT agreement is supported by the International Metalworkers' Federation.

I would urge strongly that U.S. representatives in GATT press vigorously for such an amendment.

OPPORTUNITY FOR ADAPTATION

The third question asked by Chairman Culver on April 24 was: "Is there adequate opportunity in our own economy for relocation of import-sensitive labor and capital into more productive endeavors?"

The short answer to that question is: Opportunities are abundant; what is lacking is the will to translate the promise of the Employment Act of 1946 into reality.

With unemployment hovering around 6 percent, there are bound to be difficulties in finding new jobs for those displaced by foreign competition. But that unemployment rate is man-made and not divinely ordained. There is no reason inherent in the U.S. economy for an average unemployment rate which, as noted, was 2.4 times as high from 1959 though 1970 as the weighted average for our major trading partners (excluding Canada whose unemployment rate is largely determined in the U.S.).

There is more work that urgently requires being done in the U.S. today than could be accomplished if we provided steady employment for every person able and willing to work for a great many years ahead. There are the vast unmet private needs of the millions of families whose incomes are below the level determined by BLS to be the minimum necessary for a "moderate" (in fact, a clearly inadequate) standard of living. There are the public needs to revitalize our dying cities, to cope with environmental pollution, to improve education, to provide high-quality health care for all, to rehouse millions of our people, to provide efficient and reliable mass transportation, to create a sound system of criminal justice and rehabilitation, to improve public recreational facilities.

While all those needs, and many more besides, remain unmet we tolerate an awesome waste of our productive potential. Actual GNP in the final quarter of 1971 was $75 billion (in then current dollars) short of the official, and in our opinion understated, measure of potential GNP.

In the face of these few facts—to which many more could be added—no one can assert with any validity that we lack the ability or the means not only to reemploy those displaced by foreign competition but also to cut unemployment to the irreducible minimum and to shift a significant part of our work force to better jobs than those on which they are now employed.

COMPREHENSIVE OR SEPARATE PROGRAM

A further question asked by Chairman Culver at the opening of these hearings was: "Can adjustment assistance be made to operate effectively in relation to trade-related injury alone, or must such a program be designed as part of an overall domestic conversion policy that remedies industrial dislocations regardless of cause?"

There can be no question that an overall program designed to remedy industrial dislocations generally is highly desirable, and would be greatly preferable to a program covering trade related injuries alone. Nevertheless, it can be said without qualification that a program of the latter sort, if sound in concept and substance, can be made to operate effectively, and would be highly preferable

to no program at all, or to one as grossly inadequate as the program of adjustment assistance established under the Trade Expansion Act.

Whether or not it is made to operate effectively depends both on the adequacy of the program and the spirit and manner in which it is administered.

Meyer Bernstein, International Affairs Director of the United Steelworkers of America, has already testified with respect to the adjustment assistance board established under the APTA. He said:

"The board was a model of efficiency, good sense and equity. Responsibility was placed where it belonged. The forms to be filled out required no more than the minimum of what was necessary to institute a proceeding . . . And the board functioned very well indeed."

With that judgment we would in general be in complete agreement. Our main qualifications would be (1) that the language of the legislation under which the Board operated made for needless complications (such as the unavailability to the Union in some cases of employer data treated as "confidential") and for serious delays in the delivery of benefits and (2) that, as noted elsewhere in this statement, the Board never satisfactorily resolved the problem of identifying the particular workers to whom benefits should have been paid when layoffs resulted from both trade and non-trade causes. The latter problem, also, may have arisen partly or wholly out of the language of the law.

Delays experienced under APTA underline the importance of the point, made elsewhere in this statement, that eligibility criteria must be so devised as to permit determinations to be made, at least in the vast majority of cases, without investigations involving anything more than the examination of data collected in advance.

I would repeat, however, that it would be highly preferable to provide trade adjustment assistance under an overall program designed to remedy industrial dislocation generally. I suggest two reasons in particular for this approach. First, both the program and its administration can be greatly simplified if the basic eligibility rules can be reduced to a determination that industrial dislocation has taken place and that adjustment assistance is required, rather than the requirement that the cause of the dislocation fit into a narrow definition which, in the nature of things, cannot anticipate all the complications that arise in real life. Second, in a dynamic and ever-changing economy such as ours, industrial dislocation can take place for the widest conceivable variety of reasons, none of which is the fault of the affected workers and their families. It is society as a whole, not the dislocated workers, which benefits from and cherishes the dynamic nature of its economy, and society therefore should pay the cost.

As a most outstanding example, may I point out that there are hundreds of thousands, possibly in the long run millions of men and women—discharged service men and women, dislocated civilian employees of the Department of Defense and dislocated employees of private defense contractors and related industries, who have been or will be left jobless by the winding down and the long-hoped-for eventual ending of the Indo-China war.

This group, who face dislocation as a result of actions taken by their government, as do those affected by national trade policies, obviously have an indisputable claim on the government for a compassionate and generous response to their need for adjustment assistance. The moral basis for the claims by others—dislocated by the normal working of the kind of economy our society has decided to maintain—is no less strong even though, at first glance, it may appear less obvious.

We are a long way, in practice, from responding to the moral imperative that calls for fair sharing of costs by all who share in the benefits of any policy—including economic policy in its broadest sense. Our purpose, however, should be to approach closer to that goal whenever opportunity arises. Experience shows that progress in that direction can be made in response to particular situations. Amtrak is one example. Trade adjustment assistance provides another opportunity and the winding-down of the Indo-China war, still another. By taking advantage of such opportunities as they arise we can hasten the arrival of a comprehensive program covering all forms of economic dislocation.

ADJUSTMENT ASSISTANCE AND IMPORT RELIEF

Chairman Culver's final question at the opening of these hearings was: "What is the proper relationship between adjustment assistance for industrial firms, workers, and communities on the one hand, and temporary import relief for entire industries on the other?"

Aid to communities

Before responding to the main issue raised by that question, I would like to discuss briefly the question of aid to communities whose economies are threatened with injury by foreign competition.

Amtrak-type adjustment assistance benefits would make a major contribution to sustain the economies of such communities and to facilitating their adjustment to changing circumstances.

Protection of the incomes of the workers would automatically insure protection of the consumer purchasing power base of the community. That, in turn, would protect local merchants, service establishments and professionals and would preserve local real estate value for as long as the affected workers remained eligible to receive adjustment assistance payments.

However, it would not be economically or socially desirable to maintain the displaced workers in unnecessary idleness. Nor, in view of the strength of the work ethic in America, would the workers want to remain idle.

In a generally good national economic environment, relocation could enable the displaced workers to obtain other employment. But it would entail the disruption of the workers' family and community ties. In addition, the resultant loss of population would erode the economic base of the community and would be wasteful of existing housing, community facilities and capital invested in local businesses, all of which might have to be duplicated in the areas to which the workers would move. It would therefore generally be preferable to bring new work to the displaced workers rather than to move the workers to new work.

Legislation already exists which, with minor amendments, could contribute substantially to that purpose. I refer to the Public Works and Economic Development Act. That Act presently provides for various forms of assistance to areas where the loss, curtailment or closing of a major source of employment causes or threatens to cause an unusual and abrupt rise in unemployment which would raise the area unemployment rate to 50 percent or more above the national average.

Senator Montoya in 1970 introduced an amendment to the Act which, among other things, would have eliminated the 50 percent differential unemployment rate requirement. It also would have authorized assistance to be made available to any area which:

". . . has suffered or will suffer severe economic loss by reason of the closing, removal, or curtailment, regardless of cause, of any Federal installation, including military installations, or any industrial or commercial facility which constitutes a major source of employment in such area. Such assistance may include any of the assistance provided for in section 301 of this title together with grants, loans, or a combination thereof, pursuant to titles I and II of the Act, as may be necessary to enable such area to restore or maintain the economic viability of the area, and may include assistance for training and retraining of workers to the extent that such funds are not otherwise available under regular programs of the Federal Government. Assistance to any such area may be rendered without regard to the designation of such area as a redevelopment area or its geographic location in a designated economic development district. . . ."

Enactment of such an amendment to the Public Works and Economic Development Act would be highly desirable to meet a wide variety of problems, including those arising recently in many communities as a result of cutbacks in military procurement, as well as those resulting from trade.

Import relief

Situations can arise in which a sudden and unanticipated flood of imports of a product threatens large scale disruption to workers and communities which would put an unduly heavy burden on adjustment assistance mechanisms. The phrase commonly used to describe such situations is "market disruption."

Under such circumstances, as indicated by Appendix A, the UAW supports the use of temporary tariff-quotas (although the resolution refrained from using the term because it would have been unfamiliar to most of the delegates at the convention). Imports at previous volumes, or possibly even somewhat higher volumes, would continue to be admitted to the U.S. at pre-existing tariff rates (including zero rates). Imports in excess of the specified volume would be subject to a higher tariff set at a level which would tend to exclude additional imports so long as domestic producers did not increase their prices unduly. (The

UAW did not call for quotas because they have the effect of freeing domestic producers from price competition by foreign producers.) The quota above which the extra tariff applied would be scheduled in advance to be phased upward (or the extra tariff could be phased downward) to permit orderly adjustment to an increasing volume of imports. Increases in the quota could be geared, if deemed necessary, to the attriton rate of the industry's work force—which would avoid displacement entirely. Under favorable conditions—e.g., full employment and the growth of new industries in the affected communities, which would facilitate placement of the industry's workers in equally good or better jobs—the quota could be increased more rapidly. Ultimately, the tariff applied to the total volume of imports of the product would be reduced to its original level. Meanwhile, the affected industry, communities and workers would be aware that the tariff-quota would be removed and would plan accordingly. Meanwhile, also, the government could help them to plan and to carry out their plans.

OTHER MATTERS

Before concluding, I should like to stress three matters related to the subject of these hearings.

Revival of APTA adjustment assistance

The adjustment assistance provisions of the Automotive Products Trade Act expired on June 30, 1968. Dislocations resulting from the operation of the automotive trade agreement have continued since that date, but the workers affected must go through the stifling procedures and meet the intolerably restrictive eligibility requirements of the TEA in order to qualify for benefits. In consequence, workers dislocated in certain situations have been unable to obtain benefits (inadequate though they are) which would have been provided for them had the APTA provisions been continued in effect.

So far as I know, there is universal agreement that the now-expired provisions should be revived. Presidents Johnson and Nixon have both so recommended and provision for their revival was included in the trade bill passed by the House of Representatives November 1970. Yet the provisions in question are still inoperative.

While I know this Subcommittee has no legislative authority in this matter, I would hope that it would find a way to bring it to the attention of other members of the House. I am aware of fears that raising this question may open the flood gates to a tidal wave of amendments involving other trade matters. In view of general agreement that the provisions in question should be revived as a matter of justice to the affected workers, it might be possible to persuade the members of Congress to permit action on those provisions without raising extraneous issues.

International fair labor standards

Another matter—one of superlative importance to U.S. trade policy—has also attracted wide agreement but, as yet, has resulted in no action. I refer to the issue of international fair labor standards.

In order to assure workers that their hard-won labor standards will not be undermined by competition from exploited labor, an international fair labor standards provision should be added to the GATT agreement under which exporting firms in all countries would be required to pay their workers fair wages commensurate with the wealth they produce. A fair labor standards provision was included in the Havana Charter for an International Trade Organization which was signed in 1948 by more than 50 governments, including the U.S., although unfortunately never ratified. Article 7 of the Charter declared in part:

"The Members recognize that measures relating to employment must take fully into account the rights of workers under inter-governmental declarations, conventions and agreements. They recognize that all countries have a common interest in the achievement and maintenance of fair labour standards related to productivity, and thus in the improvement of wages and working conditions as productivity may permit. The Members recognize that unfair labour conditions, particularly in production for export, create difficulties in international trade, and, accordingly, each Member shall take whatever action may be appropriate and feasible to eliminate such conditions within its territory."

Means were provided in the Charter for settlement of disputes relating to labor standards.

The U.S. government has raised the issue of fair labor standards in GATT negotiations from time to time but, apparently, has never given it the emphasis it deserves. The Roth Report, issued in 1969, spoke out strongly on the matter and concluded:

"The United States should . . . seek, through the GATT and the ILO and possibly other international organizations, to develop international agreement upon a workable definition of fair labor standards and upon realistic means for their enforcement."

More recently, the report of the Williams Commission, a majority of whose members were bankers and industrialists, said:

"The Commission therefore recommends that the United States actively support a multilateral effort to gain international acceptance of a code of fair labor standards which would include a workable definition of the concept and realistic means for enforcing the code."

It is long past time for Congress to do whatever lies within its power to press the Administration to take the labor standards problem seriously and to raise it in GATT as an urgent matter.

Full employment

I cannot conclude this statement without stressing once more that full employment must be the paramount goal of both domestic and foreign economic policy. Full employment brings its own rewards by avoiding the waste of idle manpower and idle facilities and thus enriching the nation. But it also does much more. Full employment combined with equitable and adequate adjustment assistance acts as a solvent tending to dissolve opposition to liberal trade policies. Full employment makes it possible to adopt trade policies that facilitate the movement of workers to more productive and more rewarding jobs with resulting gains in living standards for the nation as a whole. Full employment, coupled with effective manpower policies, facilitates the prompt placement in new jobs of workers dislocated by foreign competition thus sharply reducing the costs of adjustment assistance.

CONCLUSION

On behalf of the UAW, I should like to express my gratitude for the foresight and compassion that inspired these hearings to highlight the importance of trade adjustment assistance.

I hope the Subcommittee will call in forceful terms for an adjustment assistance program that will fulfill in practice the principle that no individual should be required to bear a disproportionate share of the costs of a trade policy adopted in the interest of the whole nation.

APPENDIX A

(Resolution adopted by 23d UAW Constitutional Convention, Atlantic City, N.J., April 23–27, 1972)

INTERNATIONAL CORPORATIONS AND FOREIGN TRADE

Workers everywhere have much to gain from a rational international division of labor in which each national group of workers shares equitably in the fruits of its contribution to the world's wealth. Under those conditions, the free movement of goods among countries provides major benefits to workers, who are employed to produce goods for export, and to consumers, who enjoy lower prices based upon a sound international division of labor.

Substantial numbers of UAW members—in the aerospace and agricultural implement industries, for example—owe their jobs to a high volume of exports of their industries' products. UAW members, together with other consumers, are able to improve their living standards when they can buy imported goods that offer price or quality advantages over domestic products. When such imports are available, domestic producers are under pressure to reduce prices, improve quality or manufacture competitive products. The Vega, Pinto and Gremlin are being produced in the U.S. today only because of high demand for small imported cars.

Nevertheless, serious problems can be created by international trade where it involves exploitation of workers, where rational trade patterns are disrupted by

abuses perpetrated by international corporations, where the importing country fails to maintain full employment and where sudden influxes of imports threaten disruption of markets, large scale dislocation of workers and damage to whole communities.

Sound answers must be found to these problems but we must beware of seemingly easy solutions that may bring on even more serious problems. History teaches us that economic isolationism is the wrong answer. The trade wars of the 1930's made a major contribution to bringing on a worldwide depression, to the rise of Hitler and to the outbreak of World War II. It is no harder to fight for and win sound and effective solutions than ill-advised measures that could prove disastrous.

The questions to which we must address ourselves is how to preserve the benefits of international trade while eliminating the problems that presently flow from it.

A major source of those problems is the spread of international corporations. Such corporations are the modern embodiment of what Thomas Jefferson described more than 150 years ago after observing the practices of the businessmen of his day. He wrote:

"Merchants have no country. The mere spot they stand on does not constitute so strong an attachment as that from which they draw their gains."

Operating in many countries, the international corporations acknowledge loyalty to none and seek to play each country off against the others for their own selfish purposes. Among other things, they move their investment capital across international borders motivated solely by the desire to maximize profits and with total disregard of the economic and social consequences for the peoples either of the countries in which they are headquartered or of the host countries. All too often, pursuit of profits leads them to invest where labor costs are lowest, exploitation of workers is least restrained and the degree of social responsibility required of them is in general minimal. They engage in "worldwide sourcing" which means buying human labor in the cheapest markets and selling the products everywhere at the inflated prices of shared monopolies. Thus, they deny to workers and consumers alike the benefits of international trade. The peoples of headquarters and host nations alike are regarded not as human beings but as mere instruments for the creation of profits, as Henry Ford II made clear when he said:

"In South Korea, Taiwan and Indonesia we see promising markets and we see an attractive supply of cheap labor."

Today, even though the United States is running a huge and historically unprecedented balance of payments deficit and the dollar, despite recent realignment of exchange rates, is still in a shaky position in the world's foreign exchange markets, U.S. corporations continue to export capital in enormous volume to create and expand facilities in other countries. The operations of such facilities substitute, at least in significant part, for what would otherwise be U.S. employment and production for both the domestic and foreign markets. The combined foreign exchange drain resulting from the outflow of capital and the replacement of U.S. by foreign production is a major factor in the U.S. balance of payments deficit.

The U.S. automobile corporations provide a glaring illustration of the manner in which international corporations act to the detriment of the national interest. Although the UAW had foreseen as early as January 1949, more than 23 years ago, the growth of demand by U.S. consumers for small cars and had urged the industry to manufacture them, the industry refused to do so until 1970. As a result, imports, consisting mainly of small cars, flooded into the U.S. and Canadian markets. Introduction of U.S.-made compacts in the late 1950's showed that domestic production of smaller vehicles could turn back the tide of imports. While in 1959 imports accounted for 10.17 percent of sales in the U.S., by 1962, import sales penetration was reduced to 4.89 percent. However, the industry, instead of capitalizing further on its competitive progress, made a deliberate decision to forego competing with the small imports in favor of building bigger "muscle" cars. Thus, the reduction in imports was only temporary. The compacts were too large and too high-priced to begin with to provide direct competition for the car imported in the largest numbers—the Volkswagen, whose imports continued to increase even after the compacts were introduced. Moreover, the size of the compacts was considerably increased in the years following their introduction with the result that their prices were also increased.

Had production of small cars been started in the U.S. and Canada within a reasonable time after the UAW first urged it, the imports probably would never have gained a significant foothold in our market and we would, in addition, probably have been able to obtain a dominant position in automotive exports. Thus, the nation's balance of payments would have been benefited on both sides—by lower imports and higher exports—quite likely to the tune of billions of dollars annually. Thousands of additional jobs would have been created for U.S. auto workers and for other workers in suppying industries.

Instead, the automotive Big Three invested U.S. capital heavily in overseas plants, which in itself damaged the balance of payments, used those plants to supply the world market with small cars and exported such cars from Europe to the U.S. Such exports cut almost as heavily into the U.S. balance of payments as would similar exports by foreign corporations, the difference being only a small amount in repatriated profits.

Procrastination by the U.S. auto industry in producing the small car has given foreign car exporters time to develop their dealer and service networks and parts inventories and, by now, they may be too well established in the U.S. and Canadian markets to be easily uprooted by domestic competition. In short, the Big Three may have missed the boat in developing competition for the imports.

Now, with Japanese car imports rising rapidly, the U.S. auto industry has decided to join them rather than make an all-out effort to lick them with competitive U.S.-made products. The Big Three have pressured the Japanese government into permitting them to invest in Japanese car-producing corporations—which involved another sizeable negative charge against the U.S. balance of payments, as does the Big Three's sale in the U.S. of vehicles made by their Japanese partners. To compound the evil, "captive" imports are often misleadingly advertised to give consumers the impression they were produced in the U.S. The UAW has already charged Chrysler with misleading the public with regard to its Colt built in Japan and the Cricket built in England. The Ford Capri is foreign-built and so is GM's Opel.

The U.S.-based international automobile corporations, it is now clear, deliberately decided not to compete for either the domestic or the international market with vehicles made in their U.S. plants. That conclusion is inescapable in the light of the facts that the U.S. auto industry persistently reports profit rates far in excess of the average for all U.S. manufacturing industry while, simultaneously, imports account for 16 percent of the domestic new car market. Where those conditions exist side by side, it is clear that the industry is refusing to compete with imports by accepting the lower—but nevertheless reasonable—profits that competitive prices would yield. The net result is: the workers have suffered, the nation has suffered, and today the import problem looms larger than ever.

President Woodcock recently proposed to Congress that such refusals to compete be dealt with by imposition of a special Competition Promotion Tax which would reduce after-tax profits to levels lower than they would be if the corporations involved had priced their products reasonably and thereby turned back the tide of imports.

An indefensible loophole in U.S. tax laws actually encourages the auto producers and other international corporations to produce overseas rather than in their home country. Profits from foreign subsidiaries are not taxed until they are returned to the parent corporation in the U.S. The profits may never be returned, and therefore forever escape U.S. taxation, if the corporation decides to reinvest foreign profits to expand its foreign operations—at the cost of the U.S. balance of payments, U.S. production and U.S. jobs as well as U.S. tax revenues.

What goes for the automobile corporations is also true of U.S.-based international corporations in other industries. In many cases, their transfer of production abroad is for purposes of exploiting "cheap labor" in other countries—a process that not only deprives the foreign workers of a fair share of the wealth they produce but also undermines the wage and fringe benefit standards of American workers and their job security. A prime example is the electronics industry. In one small, underdeveloped unindustrialized nation—Taiwan—there is a proliferation of U.S.-based firms producing and exporting back into the United States: Admiral Overseas, Ampex, Bendix, General Instrument, IBM, Minnesota, Motorola, Philco, RCA, Singer, Texas Instruments and Zenith.

The U.S.-based auto corporations have attempted to use the existence of lower wages for automobile workers in other countries as an excuse to hold back

wage and fringe benefit improvements for UAW members employed in the auto industry threatening loss of jobs if U.S. workers do not agree. The corporations ignore the fact that those lower wages are in many cases the wages paid by their own foreign subsidiaries. More important, they are given the lie by one of their own leading spokesmen. Robert Stevenson, former President of Ford International, pointed out in an interview with a British magazine in 1970 that:

"If you add up all the elements of a car, from tyres to engine, glass, seats, etc. (without counting raw material), the total number of working hours embodied in a car is between 65 and 70."

He went on to say that, for that reason:

"Hourly wages don't make the difference anymore between manufacturers in different countries."

Whether or not wage rates make a difference in the location of plants, the answer internationally as well as within the United States is union solidarity to raise the wages of underpaid workers everywhere. The UAW has been pursuing that goal on two fronts.

Acting through the Automotive Department of the International Metalworkers' Federation (IMF) it has brought together in Worldwide Corporation Councils representatives of the workers of each of the major international automobile corporations, including each of the Big Three, to coordinate their efforts against their respective corporations. As one means to facilitate that process, and to pave the way for simultaneous joint action, the recent World Congress of the International Metalworkers' Federation agreed that affiliates in all countries should seek common expiration dates for their contracts with the same international corporations.

At the same time, the UAW, with the support of the International Metalworkers' Federation, has continued to press for amendment of the General Agreement on Tariffs and Trade (GATT) to include a provision for international fair labor standards under which exporting firms in all countries would be required to pay their workers fair wages commensurate with the wealth they produce. Such a provision was included in the Havana Charter for an International Trade Organization under the U.N. which was signed by more than 50 governments, although, unfortunately, never ratified. The international fair labor standards proposal recently has won additional support in reports by two important U.S. government commissions, the Roth Report and the report of the President's Commission on International Trade and Investment Policy.

The importance of preserving and strengthening international trade union solidarity, rather than disrupting it through economic isolationism that would set each country's workers against those in other countries, obviously is emphasized by the growth and spread of international corporations. Chrysler, for example, plans within a few years to obtain half its vehicles from plants outside the U.S. and Canada. At that point, negotiations by U.S. Chrysler workers would presumably involve only about half of the corporation's profit-making capacity. The support of Chrysler workers in other countries, therefore, could be crucial to the success of negotiations with Chrysler in the United States. Economic isolationism, on the other hand, would only facilitate the efforts of the international corporations to play their divide-and-rule game among the workers of the various countries in which they operate.

The problems created by international corporations go far beyond those affecting their workers. Every country finds it necessary to develop elaborate codes of laws and regulations in an effort to minimize abuses of corporate power in unrestrained pursuit of profits. International corporations, however, are often able to escape national laws and regulations because no single government is able to control the full range of their far-flung operations while the corporations are often able to play governments off against each other. By manipulating the prices their subsidiaries charge each other, the international corporations can make a mockery of foreign exchange controls and can transfer profits to low-tax countries, depriving governments of proper compensation for the services they provide to the corporations. They engage in damaging speculation against the currency of their own countries. For example, U.S.-based international corporations were among the "international money speculators" who, President Nixon charged in his New Economic Policy speech of August 15, 1971, were "waging an all-out war on the American dollar." International corporations often use their economic power—for example, by threatening to move a plant from one country to another—to intimidate governments into granting them special tax and other concessions. They take advantage of the desperate needs of the poorer countries for jobs and

economic development in order to gain freedom to exploit workers and raw materials resources while often actually retarding or distorting the development process. The exploitative activities of U.S.-based international corporations often generate anti-American attitudes among the peoples of the host countries. As the latter strive to wrest control of their national economic destinies from the grip of such corporations, strains are placed on international relations and U.S. foreign policy is warped. The recently exposed attempt by ITT to involve the U.S. government in Chilean internal political affairs may have failed, but other similar efforts, unfortunately, were successful. Frictions between the U.S. and Canada are due in large part to domination of the Canadian economy by U.S.-based international corporations.

Naturally enough, the international corporations are reluctant to have the true nature of their operations exposed to the light of day. They prefer that the public get its knowledge about them exclusively from their Madison Avenue hirelings. The U.S.-based international corporations are therefore seeking to water down to the point of utter uselessness a study of certain of their activities that the International Labor Organization, a specialized agency of the United Nations, has decided to undertake.

For these and many other reasons, it is evident that the need for effective control of corporations is as urgent on the international front as it is within each country. Control can be fully effective only if imposed by concerted action by all the governments concerned. The International Metalworkers' Federation has therefore undertaken the initiative toward the creation of a task force to develop a comprehensive code of international law to be applicable to all international corporations wherever they operate. Since the task force is to be composed not only of unionists but also of representatives of political parties allied with the trade union movement in various countries—many of which are, or have been and will be again, government parties—there is reason to hope that such a code will be adopted and implemented in the not-too-distant future.

Meanwhile, however, it is imperative that individual governments take such action as lies within their power to minimize the damage done to their own peoples and to the peoples of the world by international corporations headquartered or operating within their respective boundaries. Here, as in so many other matters, the Swedish government, has shown the way. It will guarantee investments in developing countries made by Sweden-based international corporations only if the latter conform to a code of good behavior with respect to workers in such countries embracing, among other things, collective bargaining rights; benefits for loss of wages during illness, injury and layoff; pensions; a number of other health and welfare matters and non-discriminatory employment policies.

The UAW International Executive Board (IEB) adopted a resolution in June 1971 urging that similar requirements be imposed on U.S. international corporations. The IEB proposed also that exports of U.S. capital be prohibited unless licensed by the government and that licenses be refused unless the corporation showed that its proposed foreign investment was in the interests of the United States and committed itself to provide certain protections for its U.S. workers as well as for those intended to be employed in other countries. Among the protections for U.S. workers would be a requirement that the corporation applying for a license guarantee to make whole—to compensate fully for loss of wages, fringe benefits and seniority rights—any workers who might be adversely affected by the proposed investment, whether the loss resulted from a decrease in exports from the firm's U.S. plants or an increase in imports from its foreign plants.

The licensing principle, including safeguards for workers both in the United States and abroad, should be applied to imports under items 806.30 and 807 of the Tariff Schedules of the United States (TSUS), even where such imports do not involve direct investment by U.S. international corporations. These TSUS items determine tariffs on components exported for assembling or processing in other countries and then returned to the United States for sale or further processing. The tariffs apply not to the full value of the import but only to the value added by foreign processing or assembling. American corporations take advantage of these tariff provisions—particularly 807—to increase their profits through employment of "cheap labor" in such places as Japan, Hong Kong, Singapore, Taiwan, South Korea and Mexico. The Mexican government has established a "border industrialization program" to take advantage of these tariff provisions and has succeeded in inducing many American corporations to locate plants, some of them runaways from unionization, just south of the U.S.-Mexican border.

Bendix has recently done just this, moving operations from New York to Mexico. In view of the importance of good relations between the U.S. and Mexico, the UAW has proposed creation of a commission, consisting of labor, management and government representatives from both countries to prevent abuses harmful to workers. The commission would be empowered to deny use of item 807 to runaway plants, to set minimum standards of wages and fringe benefits for the Mexican workers involved and to assure their rights to free collective bargaining, including the right, if they prefer, to join the U.S. rather than the Mexican unions covering their respective industries.

Aside from the abuses perpetrated by international corporations, there are a number of other problems arising out of international trade which urgently require attention and action.

First and foremost among these is the need to protect workers against adverse effects from imports. Workers in the bearing industry have been especially hard hit by bearing imports from Japan and Germany in recent years and many UAW-organized bearing plants have felt the serious impact of the influx of foreign manufactured bearings.

The basis for liberal trade policies is that they serve the interests of the nation as a whole. That being the case, no individual should be required to bear a disproportionate share of the burdens and sacrifices involved. Any worker whose job is affected by imports should be assured of the continuance of his full wages and fringe benefits. The workers receiving such protection would bear no more of the costs involved than their share of fair taxes levied on all citizens to finance the necessary payments. Thus, all would share equitably in the costs as well as the gains from international trade.

The Trade Expansion Act (TEA) adopted during the Kennedy administration recognized for the first time in U.S. history that the nation has a special obligation to workers adversely affected by national trade policy. However, the eligibility requirements are so restrictive that only a relative handful of workers has been able to obtain the benefits provided by the legislation. Currently efforts to obtain adjustment assistance for Burroughs workers under the Trade Expansion Act have thus far been thwarted, but the case is still in process without final resolution. In addition, the benefit levels under TEA, although somewhat better than regular unemployment compensation, are so miserably inadequate that they impose on workers, particularly those in high-wage industries, a grotesquely disproportionate share of the cost of obtaining the advantages of trade for the rest of the population. The maximum benefit amounts to about 47 percent of the average auto worker's wage and about 34 percent of his total compensation including the value of his fringe benefits. For a tool and die maker, the percentages are approximately 37 and 29, respectively.

The principle of providing full compensation for wage and fringe benefit losses has been substantially carried out in practice in a similar situation when a decision taken in the interest of the whole nation threatened harm to a group of workers. When Congress set up Amtrak to run the passenger railroads, provision was made in the law to protect the workers whose jobs would be affected by the elimination of some passenger lines. Any of those workers who are laid off or downgraded are assured of the full wages and fringe benefits applicable to their former jobs, plus any subsequent increases in wage rates or improvements in fringes, for a period of time equal to the length of their previous employment on the railroads up to a maximum of six years. In addition, if transferred to a railroad job at another location, they will receive full reimbursement for all family moving expenses, including compensation for losses incurred in the sale of their homes or penalties paid for cancellation of leases. Provision is also made for retraining and for lump sum severance pay to those workers who prefer it to income maintenance benefits.

Based upon the Amtrack precedent, there is no reason why similar protections cannot be provided for workers adversely affected by international trade—particularly if the whole labor movement works for such protections as hard as the railway unions worked for the Amtrak benefits.

The International Metalworkers' Federation has called upon all its national affiliates to urge their governments to seek an amendment to the GATT charter to require all member governments to provide similar protection for their workers. Since barriers to international trade in most countries arise mainly because of fears of dislocation, it is in the common interest of all exporting countries to remove those fears in the countries to which they seek to export.

A second problem that must be met is what is known as "market disruption"—a sudden increase in imports that jeopardizes whole industries or communities in the importing country. This danger can be met by temporary tariffs scheduled in advance to be phased downward gradually to permit orderly adjustment. If such tariffs are geared to attrition rates (quits, retirements and deaths of workers) in the affected industries and if individual workers who may, nevertheless, be affected are assured Amtrak-type protections, market disruption and dislocation resulting from it would be avoided. Effective full employment policies would assure prompt placement of those workers in other good jobs and thus would minimize the cost of benefits paid to them.

A third problem is "dumping"—the sale of products on the export market at prices lower than those charged in the country where they are made. Dumping is recognized as an unfair practice in international trade. The U.S. government has recently taken action in some cases of dumping but existing law on dumping must be improved to assure prompt and effective action in all cases where the facts call for it.

A fourth problem is the removal of unfair barriers maintained by other countries against American exports. While the U.S. is not without guilt in this matter, it is well known that other countries, and the European Common Market and Japan in particular, maintain a myriad of tax, tariff, quota, licensing and other bureaucratic devices that obstruct entry of American-made goods into their markets. If international trade is to be conducted fairly these barriers must be removed on a reciprocal basis. U.S. trade negotiators should press vigorously toward that end.

A fifth problem is that U.S. and Canadian workers are at a serious disadvantage in international trade because of the failure of their governments to maintain effective full employment policies. The U.S. unemployment rate has run 2½ times as high as those of its major trading partners other than Canada ever since 1959, the first year for which comparable figures on unemployment are available. Canada has an equally dismal record—primarily the result of inadequate and conservative government economic policies. Obviously, imports have a much more serious effect in countries with high unemployment than in countries where a worker who loses a job is almost certain to find another, equally good, almost immediately. In fact, a country like Sweden, which has succeeded in maintaining full employment almost continuously for more than 30 years, is in the fortunate position of being able to welcome imports that replace its inefficient low-wage industries so that the workers can be transferred to more productive and better-paying jobs.

Full employment coupled with Amtrak-type adjustment assistance benefits would make it possible for the U.S. to admit imports from the poor countries without harm to American workers, thus contributing to a rise in living standards for hundreds of millions of people now wallowing in hunger, disease and despair. At the same time, greatly increased economic aid to the economically underdeveloped countries would ease the pressure they now feel to compete unfairly in world trade by permitting exploitation of their workers by international corporations and others who profit from "cheap labor." Among other things, having less need to sweat capital out of the hides of their workers, such countries would be able to create larger internal markets based upon higher wages and thus promote the development of their economies without undue reliance upon exports. Increased economic aid could be provided through the use of Special Drawing Rights (SDRs), the new form of international money now being created by the International Monetary Fund in order to meet the world's need for an expanding money supply. SDRs now are issued disproportionately to the richer nations. A large amount could be given instead to the World Bank or the United Nations for distribution to the poor countries. This would bypass the political obstacles to enactment of reasonable aid appropriations by Congress. Together with an international fair labor standards provision in the GATT charter, a generous allocation of SDRs for the poor countries would foster their development, assure that the benefits of development would be shared by workers and assist the countries involved gradually to take their places in a rational international division of labor, not as hewers of wood and drawers of water, but as equal partners, contributing their talents and resources to humanity as a whole and receiving fair compensation for their contribution.

Resolved:

The UAW

1. Urges Congress to take effective action against abuses of the power of international corporations by enacting legislation to:

(a) Require licenses for foreign investments proposed to be made by U.S. corporations including reinvestment of profits made in foreign operations. Licenses should be issued only when the investment can be shown to be in the interests of the people of the United States. The licenses should require the corporations to conform to a code of good behavior in relation to the foreign workers whom they employ and to guarantee full protection against loss of wages or fringe benefits to any of their American workers whose jobs or incomes might be adversely affected by the investment.

(b) Apply the same licensing requirements to imports under Tariff Schedule items 806.30 and 807, when no direct foreign investment by U.S. corporations is involved. Require that Mexico join with the U.S. in the creation of a bi-national, tripartite commission to prevent abuses as a condition for continued availability of those Tariff Schedule items to Mexican exports. Empower the President to extend the commission requirement to other countries when he deems that to be in the interests of the U.S. and foreign workers affected.

(c) Tax on a current basis, whether or not repatriated, profits made by foreign subsidiaries of U.S. corporations and close other tax loopholes favoring production in foreign countries at the expense of the United States.

(d) Impose upon corporations making excessive profits in the face of substantial invasion of the domestic market by imports in their line of production a Competition Promotion Tax which will penalize them heavily for refusal to compete with imports.

(e) Make it a crime for U.S.-based international corporations to engage in speculation against the dollar. Penalties should include jail sentences for the corporation officers responsible for the speculation.

2. Urges Congress to seek the benefits of fair international trade without hardship to American workers or communities by:

(a) Providing Amtrak-type benefits for workers whose jobs are affected by imports and, in the case of the auto trade agreement with Canada, by decreases in exports.

(b) Providing for phased tariffs to prevent market disruption.

(c) Strengthening anti-dumping legislation.

(d) Using all means available to it, including where possible without damage to American interests, refusal to approve trade treaties, in order to assure that the Executive Branch negotiate determinedly to:

(i) remove barriers to U.S. exports;

(ii) amend the GATT agreement to include an effective international fair labor standards provision and to require Amtrak-type adjustment assistance for workers in all member nations.

(e) Strengthening the Employment Act of 1946 to assure that sustained full employment becomes a reality in the United States.

3. Commends the International Metalworkers' Federation for the initiatives it has taken to promote meaningful solidarity among the world's metal workers and urges it to press forward with all possible vigor to:

(a) Strengthen the Worldwide Corporation Councils of automobile workers;

(b) Encourage and assist its national affiliates to insist that their respective governments:

(i) take effective action to curb damaging behavior by international corporations to the extent that can be done by national law;

(ii) support amendments to the GATT agreement to provide for international fair labor standards and for Amtrak-type adjustment assistance.

(c) Secure the cooperation of other international trade union organizations and of major political parties allied with the trade union movement in the creation of the proposed task force to develop a code of international law to govern international corporations.

4. Calls upon the International Labor Organization to reject efforts to water down the pending study of international corporations.

5. Urges the International Executive Board to promulgate a program which will:

(a) appropriately advise the public of the special features built into the products manufactured in the United States and Canada by UAW members.

(b) emphasize the advantages of purchasing these products, in terms of the national economy and the creation of increased job opportunities.

6. Urges the governments of other countries in their own self-interest to persuade their exporting industries to exercise self-restraint in their exports to the United States in order to avoid market disruption and dislocation which could endanger their continued access to the United States market.

7. Calls upon the United States and Canadian governments, as well as all other governments represented in the International Monetary Fund, to agree to allocate a generous proportion of new SDRs to the World Bank or the United Nations for distribution to the economically underdeveloped countries. At the same time, the governments of the industrialized countries should greatly increase their own economic aid appropriations.

APPENDIX B

LABOR PROTECTIVE PROVISIONS OF NATIONAL RAILROAD PASSENGER CORPORATION (RAILPAX) AGREEMENT CERTIFIED BY SECRETARY OF LABOR J. D. HODGSON (OFFICIAL TEXT)

U.S. DEPARTMENT OF LABOR,
OFFICE OF THE SECRETARY,
Washington, April 16, 1971.

NATIONAL RAILROAD PASSENGER CORPORATION
Eighth Floor, North Building,
L'Enfant Plaza,
Washington, D.C.

GENTLEMEN: I have received from you and reviewed the provisions of section 7.3 and Appendices C–1 and C–2 of your proposed "National Railroad Passenger Corporation Agreement." I understand that it is contemplated that such agreement will be entered into between the Corporation and various of the nation's railroads and that section 7.3 and Appendices C–1 and C–2 will be contained in any such agreement or agreements in form identical to that submitted to me.

Section 7.3 and Appendix C–1 constitute a specific and detailed commitment by railroads, providing fair and equitable arrangements to protect the interests of employees affected by discontinuances of intercity rail passenger service, all as required by Section 405 of the Rail Passenger Service Act of 1970 (P.L. 91–518).

Having reviewed these documents, I am satisfied that they meet the requirements of Section 405. I hereby certify to the National Railroad Passenger Corporation, pursuant to Section 405 of the Rail Passenger Service Act of 1970 (P.L. 91–518), that the documents accompanying this certification constitute labor protective provisions affording affected employees fair and equitable protection. This is the total certification required at this time. Employees of the National Railroad Passenger Corporation itself may be affected by subsequent transactions, the completion of which are subject to an additional certification by the Secretary of Labor, pursuant to Section 405. I note your recognition of this circumstance in Appendix C–2 of your proposed Agreement.

Sincerely,

(s) J. D. HODGSON,
Secretary of Labor.

APPENDIX C–1

The scope and purpose of this Appendix are to provide, pursuant to section 405 of the Act, for fair and equitable arrangements to protect the interests of employees of Railroad affected by discontinuances of Intercity Rail Passenger Service subject to section 405 of the Act; therefore, fluctuations and changes in volume or character of employment brought about by other causes are not within the purview of this Appendix.

ARTICLE I

1. *Definitions.*—The definitions in Article 1 of the Agreement and in the Act apply in this Appendix and in the event of conflict in definitions, those in the Act shall be controlling. In addition, whenever used in this Appendix, unless its context requires otherwise:

(a) "Transaction" means a discontinuance of Intercity Rail Passenger Service pursuant to the provisions of the Act.

(b) "Displaced employee" means an employee of Railroad who, as a result of a transaction is placed in a worse position with respect to his compensation and rules governing his working conditions.

(c) "Dismissed employee" means an employee of Railroad who, as a result of a transaction is deprived of employment with Railroad because of the abolition of his position or the loss thereof as the result of the exercise of seniority rights by an employee whose position is abolished as a result of a transaction.

(d) "Protective period" means that period of time during which a displaced or dismissed employee is to be provided protection hereunder and extends from the date on which an employee is displaced or dismissed to the expiration of 6 years therefrom, provided, however, that the protective period for any particular employee shall not continue for a longer period following the date he was displaced or dismissed than the period during which such employee was in the employ of Railroad prior to the date of his displacement or his dismissal. For purposes of this Appendix, an employee's length of service shall be determined in accordance with the provisions of section 7(b) of the Washington Job Protection Agreement of May, 1936.

2. The rates of pay, rules, working conditions and all collective bargaining and other rights, privileges and benefits (including continuation of pension rights and benefits) of Railroad's employees under applicable laws and/or existing collective bargaining agreements or otherwise shall be preserved unless changed by future collective bargaining agreements or applicable statutes.

3. Nothing in this Appendix shall be construed as depriving any employee of any rights or benefits or eliminating any obligations which such employee may have under any existing job security or other protective conditions or arrangements; provided, that there shall be no duplication or pyramiding of benefits to any employees, and, provided further, that the benefits under this Appendix, or any other arrangement, shall be construed to include the conditions, responsibilities and obligations accompanying such benefits.

4. When Railroad contemplates a transaction after May 1, 1971, it shall give at least twenty (20) days written notice of such intended transaction by posting a notice on bulletin boards convenient to the interested employees of Railroad (including terminal companies and other enterprises covered by Article III of this Appendix) and by sending registered mail notice to the representatives of such interested employees; if Railroad contemplates a transaction on May 1, 1971, it shall give the notice as soon as possible after the signing of this Agreement, prior to May 1, 1971. Such notice shall contain a full and adequate statement of the proposed changes to be effected by such transaction, including an estimate of the number of employees of each class affected by the intended changes.

At the request of either Railroad or representatives of such interested employees, negotiations for the purpose of reaching agreement with respect to application of the terms and conditions of this Appendix shall commence immediately and continue for not more than twenty (20) days from the date of notice. Each transaction which will result in a dismissal or displacement of employees or rearrangement of forces, shall provide for the selection of forces from all employees involved on basis accepted as appropriate for application in the particular case and any assignment of employees made necessary by the transaction shall be made on the basis of an agreement or decision under this section 4. If at the end of the twenty (20) day period there is a failure to agree, the negotiations shall terminate and either party to the dispute may submit it for adjustment in accordance with the following procedures:

(a) Within five (5) days from the termination of negotiations, the parties shall select a neutral referee and in the event they are unable to agree within said five (5) days upon the selection of said referee, then the National Mediation Board shall immediately appoint a referee.

(b) No later than twenty (20) days after a referee has been designated a hearing on the dispute shall commence.

(c) The decision of the referee shall be final, binding, and conclusive and shall be rendered within thirty (30) days from the commencement of the hearing of the dispute.

(d) The salary and expenses of the referee shall be borne equally by the parties to the proceeding; all other expenses shall be paid by the party incurring them.

Notwithstanding any of the foregoing provisions of this section, at the completion of the twenty (20) day notice period or on May 1, 1971, as the case may

be. Railroad may proceed with the transaction, provided that all employees affected (displaced, dismissed, rearranged, etc.) shall be provided with all of the rights and benefits of this Appendix from the time they are affected through to expiration of the seventy-fifth (75th) day following the date of notice of the intended transaction. This protection shall be in addition to the protection period defined in Article I, Paragraph (d). If the above proceeding results in displacement, dismissal, rearrangement, etc. other than as provided by Railroad at the time of the transaction pending the outcome of such proceedings, all employees affected by the transaction during the pendency of such proceedings shall be made whole.

5. *Displacement allowances.*—(a) So long after a displaced employee's displacement as he is unable, in the normal exercise of his seniority rights under existing agreements, rules and practices, to obtain a position producing compensation equal to or exceeding the compensation he received in the position from which he was displaced, he shall, during his protective period, be paid a monthly displacement allowance equal to the difference between the monthly compensation received by him in the position in which he is retained and the average monthly compensation received by him in the position from which he was displaced.

Each displaced employee's displacement allowance shall be determined by dividing separately by 12 the total compensation received by the employee and the total time for which he was paid during the last 12 months in which he performed services immediately preceding the date of his displacement as a result of the transaction (thereby producing average monthly compensation and average monthly time paid for in the test period). Both the above "total compensation" and the "total time for which he was paid" shall be adjusted to reflect the reduction on an annual basis, if any, which would have occurred during the specified twelve month period had Public Law 91–169, amending the Hours of Service Act of 1907, been in effect throughout such period (i.e., 14 hours limit for any allowance paid during the period between December 26, 1970 and December 25, 1972 and 12 hours limit for any allowances paid thereafter); provided further, that such allowance shall also be adjusted to reflect subsequent general wage increases.

If a displaced employee's compensation in his retained position in any month is less in any month in which he performs work than the aforesaid average compensation (adjusted to reflect subsequent general wage increases) to which he would have been entitled, he shall be paid the difference, less compensation for time lost on account of his voluntary absences to the extent that he is not available for service equivalent to his average monthly time during the test period but if in his retained position he works in any month in excess of the aforesaid average monthly time paid for during the test period he shall be additionally compensated for such excess time at the rate of pay of the retained position.

(b) If a displaced employee fails to exercise his seniority rights to secure another position available to him which does not require a change in his place of residence, to which he is entitled under the working agreement and which carries a rate of pay and compensation exceeding those of the position which he elects to retain, he shall thereafter be treated for the purposes of this section as occupying the position he elects to decline.

(c) The displacement allowance shall cease prior to the expiration of the protective period in the event of the displaced employee's resignation, death, retirement or dismissal for justifiable cause.

6. *Dismissal allowances.*—(a) A dismissed employee shall be paid a monthly dismissal allowance, from the date he is deprived of employment and continuing during his protective period, equivalent to one-twelfth of the compensation received by him in the last 12 months of his employment in which he earned compensation prior to the date he is first deprived of employment as a result of the transaction. Such allowance shall be adjusted to reflect on an annual basis the reduction, if any, which would have occurred during the specified twelve month period had Public Law 91–169, amending Hours of Service Act of 1907 been in effect throughout such period (i.e., 14 hours limit for any allowance paid during the period between December 26, 1970 and December 25, 1972 and 12 hours limit for any allowances paid thereafter); provided further that such allowance shall also be adjusted to reflect subsequent general wage increases.

(b) The dismissal allowance of any dismissed employee who returns to service with Railroad shall cease while he is so reemployed. During the time of such reemployment, he shall be entitled to protection in accordance with the provisions of Section 5.

(c) The dismissal allowance of any dismissed employee who is otherwise employed shall be reduced to the extent that his combined monthly earnings in such other employment, any benefits received under any unemployment insurance law, and his dismissal allowance exceed the amount upon which his dismissal allowance is based. Such employee, or his representative, and Railroad shall agree upon a procedure by which Railroad shall be currently informed of the earnings of such employee in employment other than with Railroad, and the benefits received.

(d) The dismissal allowance shall cease prior to the expiration of the protective period in the event of the employee's resignation, death, retirement, dismissal for justifiable cause under existing agreements, failure to return to service after being notified in accordance with the working agreement, or failure without good cause to accept a comparable position which does not require a change in his place of residence for which he is qualified and eligible with the Railroad from which he was dismissed after being notified, or with the National Railroad Passenger Corporation after appropriate notification, if his return does not infringe upon employment rights of other employees under a working agreement.

7. *Separation allowance.*—A dismissed employee entitled to protection under this Appendix, may, at his option within 7 days of his dismissal, resign and (in lieu of all other benefits and protections provided in this Appendix) accept a lump sum payment computed in accordance with Section 9 of the Washington Protection Agreement of May, 1936.

8. *Fringe benefits.*—No employee of Railroad who is affected by a transaction shall be deprived during his protective period of benefits attached to his previous employment, such as free transportation, hospitalization, pensions, relief, et cetera, under the same conditions and so long as such benefits continue to be accorded to other employees of Railroad, in active service or on furlough as the case may be, to the extent that such benefits can be so maintained under present authority of law or corporate action or through future authorization which may be obtained.

9. *Moving expenses.*—Any employee retained in the service of Railroad or who is later restored to service after being entitled to receive a dismissal allowance, and who is required to change the point of his employment as a result of the transaction, and who within his protective period is required to move his place of residence, shall be reimbursed for all expenses of moving his household and other personal effects, for the traveling expenses of himself and members of his family, including living expenses for himself and his family and for his own actual wage loss, not to exceed three working days, the exact extent of the responsibility of Railroad during the time necessary for such transfer and for a reasonable time thereafter and the ways and means of transportation to be agreed upon in advance by Railroad and the affected employee or his representatives; provided, however, that changes in place of residence which are not a result of the transaction, which are made subsequent to the initial change or which grow out of the normal exercise of seniority rights, shall not be considered to be within the purview of this Section; provided further, that the Railroad shall, to the same extent provided above, assume the expenses, etc. for any employee furloughed within three (3) years after changing his point of employment as a result of a transaction, who elects to move his place of residence back to his original point of employment. No claim for reimbursement shall be paid under the provisions of this Section unless such claim is presented to Railroad within 90 days after the date on which the expenses were incurred.

10. Should Railroad rearrange or adjust its forces in anticipation of a transaction with the purpose or effect of depriving an employee of benefits to which he otherwise would have become entitled under this Appendix, this Appendix will apply to such employee.

11. *Arbitration of disputes.*—(a) In the event Railroad and its employees or their authorized representatives cannot settle any dispute or controversy with respect to the interpretation, application or enforcement of any provision of this Appendix, except Sections 4 and 12 of this Article I, within 20 days after the dispute arises, it may be referred by either party to an arbitration committee. Upon notice in writing served by one party on the other of intent by that party to refer a dispute or controversy to an arbitration committee, each party shall,

within 10 days, select one member of the committee and the members thus chosen shall select a neutral member who shall serve as chairman. If any party fails to select its member of the arbitration committee within the prescribed time limit, the general chairman of the involved Labor Organization or the highest officer designated by Railroad, as the case may be, shall be deemed the selected member, and the committee shall then function and its decision shall have the same force and effect as though all parties had selected their members. Should the members be unable to agree upon the appointment of the neutral member within 10 days, the parties shall then within an additional 10 days endeavor to agree to a method by which a neutral member shall be appointed, and, failure such agreement, either party may request the National Mediation Board to designate within 10 days the neutral member whose designation will be binding upon the parties.

(b) In the event a dispute involves more than one Labor Organization, each will be entitled to a representative on the arbitration committee, in which event Railroad will be entitled to appoint additional representatives so as to equal the number of Labor Organization representatives.

(c) The decision, by majority vote, of the arbitration committee shall be final, binding, and conclusive and shall be rendered within 45 days after the hearing of the dispute or controversy has been concluded and the record closed.

(d) The salaries and expenses of the neutral member shall be borne equally by the parties to the proceeding and all other expenses shall be paid by the party incurring them.

(e) In the event of any dispute as to whether or not a particular employee was affected by a transaction, it shall be his obligation to identify the transaction and specify the pertinent facts of that transaction relied upon. It shall then be the Railroad's burden to prove that factors other than a transaction affected the employee.

12. *Losses from home removal.*—(a) The following conditions shall apply to the extent they are applicable in each instance to any employee who is retained in the service of Railroad (or who is later restored to service after being entitled to receive a dismissal allowance) who is required to change the point of his employment within his protective period as a result of the transaction and is therefore required to move his place of residence:

(i) If the employee owns his own home in the locality from which he is required to move, he shall at his option be reimbursed by Railroad for any loss suffered in the sale of his home for less than its fair value. In each case the fair value of the home in question shall be determined as of a date sufficiently prior to the date of the transaction so as to be unaffected thereby. Railroad shall in each instance be afforded an opportunity to purchase the home at such fair value before it is sold by the employee to any other person.

(ii) If the employee is under a contract to purchase his home, Railroad shall protect him against loss to the extent of the fair value of any equity he may have in the home and in addition shall relieve him from any further obligation under his contract.

(iii) If the employee holds an unexpired lease of a dwelling occupied by him as his home, Railroad shall protect him from all loss and cost in securing the cancellation of said lease.

(b) Changes in place of residence which are made subsequent to the initial changes caused by the transaction and which grow out of the normal exercise of seniority rights, shall not be considered to be within the purview of this Section.

(c) No claim for loss shall be paid under the provisions of this Section unless such claim is presented to Railroad within 1 year after the date the employee is required to move.

(d) Should a controversy arise in respect to the value of the home, the loss sustained in its sale, the loss under a contract for purchase, loss and cost in securing termination of a lease, or any other question in connection with these matters, it shall be decided through joint conference between the employees, or their representatives, and Railroad. In the event they are unable to agree, the dispute or controversy may be referred by either party to a board of competent real estate appraisers, selected in the following manner: One to be selected by the representatives of the employees and one by Railroad, and these two, if unable to agree within 30 days upon a valuation, shall endeavor by agreement within 10 days thereafter to select a third appraiser, or to agree to a

method by which a third appraiser shall be selected, and, failing such agreement, either party may request the National Mediation Board to designate within 10 days a third appraiser whose designation will be binding upon the parties. A decision of a majority of the appraisers shall be required and said decision shall be final and conclusive.

The salary and expenses of the third or neutral appraiser, including the expenses of the appraisal board, shall be borne equally by the parties to the proceedings. All other expenses shall be paid by the party incurring them, including the compensation of the appraiser selected by such party.

ARTICLE II

1. Any employee who is terminated or furloughed as a result of a transaction shall, if he so requests, be granted priority of employment or reemployment to fill a position comparable to that which he held when terminated or furloughed, even though in a different craft or class, on Railroad which he is, or by training or retraining physically and mentally can become, qualified, not however, in contravention of collective bargaining agreements relating thereto.

2. In the event such training or retraining is requested by such employee, Railroad shall provide for such training or retraining at no cost to the employee.

3. If such a terminated or furloughed employee who has made a request under sections 1 or 2 of this Article II fails without good cause within 10 calendar days to accept an offer of a position comparable to that which he held when terminated or furloughed for which he is qualified, or for which he has satisfactorily completed such training, he shall, effective at the expiration of such 10-day period, forfeit all rights and benefits under this Appendix.

ARTICLE III

Subject to this Appendix, as if employees of Railroad, shall be employees, if affected by a transaction, of separately incorporated terminal companies which are owned (in whole or in part) or used by Railroad and employees of any other enterprise within the definition of common carrier by railroad in Section 1 (3) of Part I of the Interstate Commerce Act, as amended, in which Railroad has an interest, to which Railroad provides facilities, or with which Railroad contracts for use of facilities, or the facilities of which Railroad otherwise uses; except that the provisions of this Appendix shall be suspended with respect to each such employee until and unless he applies for employment with each owning carrier and each using carrier and to the National Railroad Passenger Corporation; provided that said carriers and the National Railroad Passenger Corporation shall establish one convenient central location for each terminal or other enterprise for receipt of one such application which will be effective as to all said carriers and the Corporation and Railroad shall notify such employees of this requirement and of the location for receipt of the application. Such employees shall not be entitled to any of the benefits of this Appendix in the case of failure, without good cause, to accept comparable employment, which does not require a change in place of residence, under the same conditions as apply to other employees under this Appendix, with the National Railroad Passenger Corporation or any carrier for which application for employment has been made in accordance with this section.

ARTICLE IV

Employees of Railroad who are not represented by a Labor Organization shall be afforded substantially the same levels of protection as are afforded to members of Labor Organizations under these terms and conditions.

In the event any dispute or controversy arises between Railroad and an employee not represented by a Labor Organization with respect to the interpretation, application or enforcement of any provision hereof which cannot be settled by the parties within 30 days after the dispute arises, either party may refer the dispute to the Secretary of Labor for determination. The determination of the Secretary of Labor, or his designated representative, shall be final and binding on the parties

ARTICLE V

1. It is the intent of this Appendix to provide employee protections which meet the requirements of Section 405 of the Act and are not less than the benefits

established pursuant to Section 5(2)(f) of the Interstate Commerce Act. In so doing, changes in wording and organization from arrangements earlier developed under Section 5(2)(f) have been necessary to make such benefits applicable to contemplated discontinuances of intercity rail passenger service affecting a great number of railroads throughout the nation. In making such changes it is not the intent of this Appendix to diminish such benefits. Thus, the terms of this Appendix are to be resolved in favor of this intent to provide employee protections and benefits no less than those established pursuant to Section 5(2)(f) of the Interstate Commerce Act.

2. In the event any provision of this Appendix is held to be invalid or otherwise unenforceable under applicable law, the remaining provisions of this Appendix shall not be affected, and such provision shall be renegotiated and resubmitted to the Secretary of Labor for certification pursuant to Section 405 of the Act.

THE NATIONAL RAILROAD PASSENGER CORPORATION AGREEMENT APPENDIX C–2

NRPC, having at the date of this Agreement no employees whose interests could be affected by discontinuance of Intercity Rail Passenger Service, undertakes, after commencement of operations in the basic system, to provide fair and equitable arrangements to protect the interests of its employees affected by such discontinuance as required by Section 405 of the Act and subject to the required certification by the Secretary of Labor.

SECTION 7.3 LABOR PROTECTION COSTS

Railroad shall provide fair and equitable arrangements to protect the interests of its employees affected by the discontinuance of Intercity Rail Passenger Service whether occurring before, on or after January 1, 1975, to the extent required by and on the terms and conditions set forth in Appendix C–1.

(a) Railroad shall have the obligation for the costs of such protection without reimbursement by NRPC, for employees of Railroad affected by its discontinuances of Intercity-Rail Passenger Service under Section 401(a)(1) of the Act.

(b) Within sixty (60) days after May 1, 1971, Railroad shall furnish to NRPC a list of those job positions to be occupied by employees of Railroad as will be necessary for the provision of services by Railroad for NRPC pursuant to Section 3.1, and Section 3.3 insofar as such section implements Section 3.2, and in the event Railroad incurs employee protection costs as a result of the elimination or consolidation of any of the job positions set forth on such list, either NRPC or Railroad may submit to arbitration under Article Six hereof the existence and extent of any obligation of NRPC under the Act to reimburse Railroad for such costs.

As an alternative to such submission, either NRPC or Railroad shall have the option to petition the United States District Court for the District of Columbia for a declaratory judgment to resolve such controversy. In the event that such District Court determines such controversy, its determination, subject to any appeal provided by law, shall finally resolve the question under this Agreement. If such District Court determines, subject to any such appeal, that it is without jurisdiction to determine such controversy, arbitration shall proceed under Article Six hereof after final determination.

(c) In the event Railroad is required, pursuant to Section 3.2, and Section 3.3 insofar as such section implements Section 3.2, to increase the number of job positions over the number of such positions as specified on the list furnished by Railroad to NRPC pursuant to subsection (b) hereof, or is required to reestablish job positions shown on such list theretofore eliminated, and Railroad thereafter incurs employee protection costs as a result of the elimination or consolidation of such increased or reestablished job positions, NRPC shall reimburse Railroad for the full amount of such costs less the amount by which Railroad may have been relieved of its employee protection costs by such increased or reestablished positions.

(d) NRPC shall provide at its expense fair and equitable arrangements to protect the interests of its own employees affected by its discontinuance of Intercity Rail Passenger Service occurring after May 1, 1971, to the extent required by and on the terms and conditions set forth in Appendix C–2.

APPENDIX C-3

Excerpt from Papers Submitted to the Commission on International Trade and Investment Policy—July 1971 (known as The Williams Commission Report). "Trade Adjustment Assistance" by Marvin M. Fooks.

VII. BROADENING THE IMPACT OF ADJUSTMENT ASSISTANCE

ADJUSTMENT ASSISTANCE FOR WORKERS EMPLOYED IN PRODUCTION FOR EXPORT

The Automotive Products Trade Act of 1965 established the precedent for assisting workers and firms injured because of changing production patterns including declining production for export. A generalized case for providing adjustment assistance to firms and workers injured by loss of export markets can be made within the confines of the natural trade agreements program.

The principal of reciprocity is an important underpinning of the trade agreements program. Reciprocity dictates that for every tariff concession granted by the United States an equivalent concession be obtained from a foreign government. The equivalent concession ostensibly is measured in terms of U.S. industry's competitive ability to export specific products. Unquestionably, the government's negotiations of reciprocal tariff reducing agreements has encouraged expanded export activity by U.S. industry. Similarly, officially sanctioned activities to stimulate export expansion have further exploited the groundwork established in part by the trade agreements program. Increased employment is associated with expanding domestic production for export. Workers employed in production specifically for export would have been elsewhere or otherwise employed had it not been in the national interest to remove barriers to trade and to expand exports.

Workers and firms engaged in production for export have established specific stakes in their current export-related employment. Loss of particular exports is to be expected as economic conditions change just as increased imports are to be expected. A national trade and investment policy that accelerates the global reallocation of resources also accelerates the rate of economic change and causes problems of adjustment for resources previously protected by less expansionary policies.

On the above grounds, adjustment assistance for workers formerly in export-related employment, or in employment threatened by imminent loss of exports, is justified.

In addition, there are special situations involving loss of exports that justify provision of adjustment assistance to workers (and possibly firms). One such case involves the multinational corporation; another involves situations similar to that associated with the U.S.-Canadian Auto Agreement; and the third encompasses situations where domestic injury results as a consequence of a unilateral act by a foreign government that results in the loss of export markets.

Mr. CULVER. Thank you very much, Mr. Fraser. I would like to thank you for the very comprehensive approach and the penetrating analysis. I believe you have given to the issues that are being considered by this subcommittee.

In addition to raising questions about the efficacy of our present trade adjustment program in a manner that allows us to genuinely explore these questions with you, I think you pointed the way to needed reforms and this has been most constructive and we appreciate it.

I would like to call on Mr. Whalen for questions and then I have a number of questions, but in view of the voting situation, and in fairness to other members, I think we might proceed in this order.

Mr. Whalen.

SHOULD WE INTEGRATE TRADE ADJUSTMENT ASSISTANCE INTO AN OVERALL MANPOWER PROGRAM?

Mr. WHALEN. Thank you, Mr. Chairman.

I want to commend you, Mr. Fraser, and the organization for which you are speaking today for the statesmanlike approach that you have taken on this issue. I think it goes without saying that it is very difficult to speak macroeconomics in a microeconomic situation.

In other words, when a person has lost his job, it is difficult to tell him "you must look at the bigger picture." So as you have suggested, I think steps have to be taken to ameliorate the situation in individual cases. I did not have a chance, of course, to read your document, but there have been witnesses who have appeared before this subcommittee who have advocated that we integrate the whole manpower training mechanism and that, in effect, we scrap the trade adjustment assistance program.

Do you recommend that in your position paper here?

Mr. FRASER. If you are talking about an overall policy and overall program that would provide security and retraining for all workers who are dislocated——

Mr. WHALEN. For whatever reason.

Mr. FRASER. I would not object to that as an ultimate step as a national policy, but I think that first realistic step is to take care of this current problem that flows from the trade policy of our country just as we did with Amtrak. Amtrak was certainly a step forward and now we suggest the utilization of that theory in this situation and then I think ultimately I would not argue that ultimately I hope we would have national legislation that would protect workers against all dislocations.

Mr. WHALEN. Conceivably would this have to be a two-step approach? By this I mean it is obviously going to take time. It has in the past due to the time needed to determine the cause of unemployment. Unfortunately the worker is going to have to wait for that determination and this is a factor, I think, that has concerned all of us with respect to the present trade adjustment program.

Mr. FRASER. We proposed in our document a mechanism which hopefully would reduce that delay to which you refer and we think it is a practical approach and we take recognition of that problem in our statement.

Mr. WHALEN. I have no further questions, Mr. Chairman.

Thank you.

Mr. CULVER. Mr. du Pont.

Mr. DU PONT. Thank you, Mr. Chairman.

I would simply like to compliment you on presenting us first with a very weighty statement. If we weigh it by the pound, I think it is one of the best we have had. But seriously it is a very detailed statement that we will have an opportunity to study at greater length and I am also very refreshed having participated in the earlier hearings to see someone from the labor movement come in with what I consider a much more realistic stance than some of the protectionist rhetoric that we have heard along the way.

I apologize for coming late and apologize for the fact that we are going to have to vote.

Mr. FRASER. I would like to underline one point. We didn't take this decision without considerable debate, considerable time. We had, for example, prior to our convention an international executive board meeting dealing exclusively with this problem.

We had advocates of all points of view, including advocates of the Burke-Hartke approach. We, after hearing all of the evidence, made a decision to stay with our historic policy and I think the important thing is that we went to our convention in the latter part of April and 3,000 delegates endorsed our stand.

THE EFFECT OF AUTO IMPORTS ON U.S. JOBS

Mr. DU PONT. Mr. Chairman, could I ask an additional question?

Several weeks ago Mr. Biemiller was here talking about his views on this same situation and I asked him a question that he promised to answer for me for the record, but perhaps you could give us a thought on it. He was arguing in favor of Burke-Hartke and the question I asked him was, if its provisions went into effect taking one of the foreign car firms such as Volkswagen, if there was a cutback as a result of Burke-Hartke on the number of automobiles that could be brought into the United States as I believe there should be, I asked him how many American jobs in this country that would cost in terms of Americans who were working for the Volkswagen company here.

I wonder if you represent those workers, first of all, and if you have any idea what kind of an effect that might have.

Mr. FRASER. If we represent Volkswagen workers, or anyone connected with Volkswagen, it would be in dealer agencies. I would think it would have no impact on the employment here. I am not sure what it would do to Germany.

Let me make a point of doing it our way, but if you look at the Volkswagen sales, the first 4 months of 1971 as against the first 4 months of 1972, I think you will find they had sales of 144,000 cars in 1971 and sales of roughly 100,000 cars in 1972. So because the auto industry is now doing the things they should have been doing for years, I think it is at least bringing under control the competitive problem.

Mr. DU PONT. Thank you.

Thank you, Mr. Chairman.

Mr. CULVER. Mr. Fraser, I have a number of questions, but I think at this time it would be best in terms of meeting this vote on the floor if we could recess for 10 minutes.

(A brief recess was taken.)

WHY DOES THE UAW SUPPORT AN OUTWARD LOOKING TRADE POLICY?

Mr. CULVER. The subcommittee will come to order.

Mr. Fraser, you say on page 1 of your statement that the UAW has "rejected the protectionism to which regrettably most of the American labor movement has succumbed."

This is despite the fact that as you point out the penetration of the domestic market by imported automobiles is far larger than in most other industries. Could you explain to the subcommittee why your membership has renewed its support of an outward-looking trade policy and the search for constructive alternatives to protectionism

while most of the American labor movement now embraces some form of protectionism?

Mr. FRASER. I would suggest, Mr. Chairman, that if we had serious unemployment in the automobile industry at the same point the imports were increasing, we would have much greater problems than we now have and I think that has happened to some of the other unions and we have not been in that unfortunate position although I say, there has been severe pressure upon us. Members of our union know what other unions are doing and they say why don't you travel this road and it is a very easy solution to raise tariff walls and boycott, and we just have to resist that.

But I think we would have a great deal of difficulty if we had serious unemployment in this industry. Our employment has not been increasing, but it has been relatively stable. I think as we are able to convince our members that there is another way, that hopefully we are going to get legislation that will protect them in situations where they are adversely affected by the national trade policy. However, if that does not come to pass, we are going to have much more difficulty in convincing our members to follow our historic and traditional role.

Mr. CULVER. Did you have an opportunity during your convention when your position on foreign trade was debated to argue on the merits the advantages to the average member in your union of an outward-looking trade policy as distinguished from a protectionist one? Did you try to meet it in terms of the economics of general interest to your membership as distinguished from the problems posed by individual plant dislocations?

Mr. FRASER. Unfortunately I left the convention when that resolution—I was in the meeting when that resolution hit the floor. First of all, there was a comprehensive resolution which sets forth our philosophy and our rejection of the protectionist approach.

Did we not have a speech on it in addition to that?

STATEMENT OF NAT WEINBERG, DIRECTOR OF SPECIAL PROJECTS, UNITED AUTOMOBILE, AEROSPACE & AGRICULTURAL IMPLEMENT WORKERS OF AMERICA (UAW)

Mr. WEINBERG. Our President Woodcock gave a speech to the convention that dealt with great length on this subject.

Mr. CULVER. I wonder if you might obtain a copy for us for the record, and without objection it will be inserted.[9]

Mr. FRASER. Mr. Weinberg jogged my memory. In the state of the union address, President Woodcock dealt at some length about the pressures that were upon us. The day before both Mr. Woodcock and myself had a meeting of all of the Chrysler people. Because of the buttons and pamphlets we went through the whole business of where tariffs would lead us and where boycotts would lead us, but I will see that you get a copy of Mr. Woodcock's speech.

Mr. WEINBERG. I might say the resolutions that the delegates had in their hands 3 days before the action was taken on this issue, the resolution spells out in great detail the rationale for the position.

[9] See excerpt from opening speech of President Leonard Woodcock at the 23d UAW convention—April 23–28, 1972, on page 719 of the appendix.

Mr. CULVER. Thank you. If you could also include that.

Mr. FRASER. That is part of my statement today.

Mr. CULVER. Thank you.

Mr. FRASER. For a variety of reasons labor unions as well as companies say they cannot compete with foreign business. However, on page 5 you say that "The volume of adjustment assistance payments required and the pressure for protectionism could both be sharply reduced if the auto industry and certain other U.S. industries as well could be induced to engage in vigorous competition with foreign producers."

What other U.S. industries do you think have potential to compete, but you think have not exploited some advantages?

Mr. FRASER. I am going to ask Mr. Weinberg to respond to that. I think I can explain the automobile industry situation, but perhaps Mr. Weinberg is more knowledgeable as it relates to other industries.

Mr. WEINBERG. One example that comes to mind is the steel industry. The economist has shown that starting after the war United States Steel followed by the rest of the industry changed its price policies so as to yield a 16-percent return on investment while operating at 80-percent capacity instead of the return earlier obtained.

So they gave themselves a price handicap right off the bat. It is pretty generally known that the American steel industry has been very backward technologically. As Europe and Japan recovered from the war, they built new and advanced plants and products began to invade this market when they were ahead of the American steel industry.

It is well known that the basic oxygen process was widely in use in Europe long before our steel industry began to pick it up in any substantial way. So there was also a case of American industry refusing to compete.

A SPECIAL COMPETITION TAX

Mr. CULVER. Mr. Fraser, in the context of your suggestion that certain U.S. industries have not utilized their potential to compete as indicated by high profits, side by side with substantial import penetration, the UAW has recommended a special competition promotion tax. Do you know whether or not any other countries have a similar tax now?

Mr. FRASER. Not to my knowledge.

Mr. CULVER. Can such a tax be reconciled with our traditional attitude toward Government-business relations?

Mr. WEINBERG. I don't see any reason why not. We used the tax mechanism to accomplish all other economic purposes. Unfortunately we generally use it in a form that means handouts to business. Without getting much in return there is no reason why tax inducements cannot be given to industry in the form of penalties as in the social interest for them to do.

Mr. CULVER. What would be an equitable formula to determine the level of the tax? Have you had an opportunity to refine that?

Mr. WEINBERG. President Woodcock testified before the Joint Economic Committee on September 20 last year and presented a formula. We can submit it to you for the record. I think it might be well if the context is also included in the record and I will indicate to the stenographer, if I may, what part should be included.

Essentially the tax would apply only where two conditions were met. The first would be average rates of profits on net worth of the industry had persistently over 5 years exceeded the average rate for all manufacturing corporations; and, secondly, imports of the general type of product made by industry exceeded a specified percentage, for example, 10 percent of total domestic consumption during the tax year. In other words, the industry could free itself from the tax if it lowered its prices so that its profits were no longer excessive or whether through lowering prices or through other means it cut back the level of imports to below 10 percent of domestic consumption. It could free itself if it did some things it represented genuine competition with imports.

Mr. CULVER. Perhaps you could work that out with the stenographer, because it would be helpful to the committee to have that at this point in the record.

(The material referred to follows:)

EXCERPT FROM STATEMENT OF LEONARD WOODCOCK BEFORE THE JOINT ECONOMIC COMMITTEE, SEPTEMBER 20, 1971

A third factor contributing to the difficulties of the dollar and the deficit in the balance of payments is the refusal of certain American corporations to compete vigorously with foreign producers both in our domestic market and in the world market. Outstanding among these are the major automobile corporations.

Here we have an industry whose profits persistently run at rates far higher than the average for all manufacturing corporations while, simultaneously, 16 percent of its domestic market is served by imports. Where these two conditions exist side by side, the conclusion is inescapable that the industry is refusing to engage in price competition with imports.

In an economy whose basic premise is competition, clear-cut refusal to compete provides ample justification for any action required to remedy the situation, no matter how drastic it may appear. I will outline below a form of tax that would give the auto industry, and other industries similarly guilty of refusal to compete with imports, a powerful incentive to change their ways. The tax, at first glance, may seem harsh but it should be kept in mind that some of the remedies for noncompetition under antitrust legislation, although infrequently applied, are even harsher. Breaking up a firm is certainly a more radical procedure than imposing a special tax designed to induce competition.

COMPETITION PROMOTION TAX

The proposed tax might be called a "Competition Promotion Tax" because that would express its purpose. It would apply only to corporations in industries where:

(1) average rates of profits on net worth for the industry had persistently (e.g., over the preceding 5 years) and significantly (e.g., by 15 percent) exceeded the average rate for all manufacturing corporations; and

(2) imports of the general type of product made by the industry exceeded a specified percentage (e.g., 10 percent) of total domestic consumption during the tax year.

If both those conditions existed, the special tax would be calculated in accordance with the following formula:

$$T_s = (1.05 - P_{a\,1-T})/P_c) \times (C_b/C_y)^2$$

where:

T_s is the special tax rate to be applied to the corporations in question;
T is the regular corporate profits tax rate (48 percent at present);
P_a is the average before-tax rate of return on net worth for all manufacturing industry;
P_c is the before-tax rate of return on net worth of the particular corporation subject to the special tax;

C_b is the percentage of consumption accounted for by domestic production in the base year; and
C_y is the corresponding percentage for the tax year.

EFFECT OF TAX

With such a tax in effect, the firms covered could increase their after-tax profits only by reducing their before-tax profits (which would require price cuts) or by reducing the inflow of imports or by a combination of both. The reduction of prices, of course, would contribute to the reduction of imports.

So long as the industry remained subject to the tax, none of its constituent corporations could realistically hope to obtain a rate of return as high as the average for all U.S. manufacturing firms.

The industry, however, would have two escape hatches by which to free itself from the tax—both consistent with the purpose for which it would be imposed. The tax would cease to apply if, during a period of five consecutive years, average rates of return in the industry fell to less than 15 percent above the all-manufacturing average for the same period. The tax would be removed in that case even though imports remained above 10 percent of consumption but the decrease in profit rates presumably would attest to reductions in prices, reflecting an effort to compete.

Alternatively, the firms in the industry could free themselves from the special tax by competitive actions—price reduction, quality improvement, production of less expensive models, etc.—which would reduce imports below 10 percent of domestic consumption. While no firm might be able single-handedly to reduce imports below that level, all in the industry would be impelled by the tax to try to do so and price cuts put into effect by one or more for that purpose would compel the others to follow.

The tax would have no effect (except in an extraordinarily profitable year) on firms, such as American Motors in the auto industry, whose rates of return run lower than the average rate for all manufacturing corporations. They would pay the normal profits tax (now 48 percent) which would be the minimum rate applicable to all firms in the industry regardless of the rate computed from the formula.

The incentive provided by the tax would be extremely powerful because the formula is highly sensitive to even small changes in prices or in the level of imports. Any increase in either or both would reduce after-tax profits. Any reduction in prices or imports or both would increase after-tax profits.

The purpose of the tax is not to raise revenues but to stimulate competition against imports. It would not be inconsistent with that purpose to give reasonable advance notice to the industries concerned—to provide in the legislation imposing the tax that it not become effective until, say, three years after enactment. Such advance notice might induce the desired competitive behavior and thus create conditions under which the tax would not be payable (i.e., industry profits less than 15 percent above the all-manufacturing average, or imports less than 10 percent of consumption, or both).

The proposed tax is novel, of course. But novelty should not deter serious consideration of its merits. The phenomenon of corporations that deliberately refuse to compete is also rather novel. New problems require new solutions.

I urge this Committee to look into the possibility of this type of tax as one means to correct the payments deficit, to create additional employment in domestic industry and to regain the former share of the United States in the world market for automobiles and for other products as well.

CRITERIA TO INSURE REEMPLOYMENT OF WORKERS

Mr. CULVER. Mr. Fraser, in your first modification you are talking about modifications to the Amtrak agreement; that instead of 6-year or set time limitation for maintenance of wages and fringe benefits there should be protection on a time-for-time basis equal to the entire duration of the workers' previous employment with the firm affected by foreign competition.

While there is a presumption that these workers will want to find new employment since they have a history of working, what

criteria should there be to insure that they just do not drop out of the job market?

Mr. FRASER. And keep drawing the benefits. I think anytime that they are offered a reasonable work opportunity, they would be required to accept it. Various States have different qualifying rules for unemployment compensation to continue drawing unemployment compensation or certain conditions you must meet in terms of your availability to work and it seems to me something along those lines could be worked out.

I don't think anyone, we are not suggesting that someone who is drawing benefits can refuse other employment.

THE COST OF ADJUSTMENT ASSISTANCE

Mr. CULVER. What are the projected costs of a time-for-time program? Do you have any?

Mr. WEINBERG. As nearly as we can make out, that would add very little to cost. In the great majority of cases, if you look at those cases that have come up under TA and Automotive Products Trade Act only a part of the establishment was affected. A plant which had seniority is pretty prevalent, which means those people would be laid off with the least seniority. We have some figures here with respect to Ford's seniority situation that I can cite to you. This is a breakdown of Ford blue collar workers.

Twenty-eight percent had less than 3 years' seniority and more than 50 percent had less than 7 years, which would mean you would have to have a cut of close to 50 percent in Ford before you affected any people who would be able to draw benefits for more than 6 years. It would only hit high-seniority people and under those circumstances where an entire company was shut down or an entire plant was shut down, and those tend to be relatively rare.

Mr. FRASER. This same percentage would apply to General Motors and Chrysler.

Mr. WEINBERG. This is one of the places where Mr. Bergsten's estimates were high because he assumed all those who found jobs would continue to draw benefits for the entire 6 years. Most would not be eligible for even half of 6 years.

Mr. CULVER. What about the worker who has been with the firm for a relatively short period of time, such as the case you are covering? You are really thinking that would be adequately treated in this way?

Mr. WEINBERG. I think it would be beneficial to have a minimum, and if the worker is referred to retraining, that benefit not be terminated until retraining is completed. Otherwise, we are involved in a waste of training expenditures.

WAGE CONTINUATION VERSUS A LIVING STIPEND

Mr. CULVER. In your third modification to the Amtrak agreement, you suggest that workers engaged in retraining under the adjustment assistance program have their wages maintained until they complete the retraining program even if the maintenance period has elapsed. We have had testimony to the effect that living stipend should be

made available to workers in retraining in order to provide economic and social stability, but that stipend should be prorated rather than the entire wage.

Could you comment on this?

Mr. FRASER. I really don't see any reason why it should not be made whole in a situation like that. I suppose the question of degree, but I really can't think of any justification for him receiving any less than his wage.

Mr. WEINBERG. Amtrak provides a full wage while the worker is being retrained and as Mr. Fraser said, the property owner expects full compensation for his loss if his property is taken under eminent domain. The only significant property that a worker has in a real sense is his job. The banker owns more of his house than he does.

LOSS OF SENIORITY RIGHTS

Mr. CULVER. Mr. Fraser, in your fourth modification you suggest compensation for loss of various seniority rights. The loss of seniority rights is certainly one of the most serious problems that are faced by these dislocated workers. Could you comment on the desirability and feasibility of vesting pension and transferring seniority rights rather than compensation?

Mr. FRASER. I think there are two different areas. First of all, we would be in favor of portability of pensions where an individual takes his pension right from one employer to another in terms of vesting. We have vesting in all of our collective bargaining agreements, but it only starts after 10 years of service.

The other area is where I believe a worker should have protection, if you are going from one employer to another or perhaps under some seniority structure like in General Motors they would carry their pension rights with them.

If you go from one employer to another and the vacation structure in auto industry, you get a certain modification after 1 year it is increased to 3 years; 5 years, 5 years. We feel a worker should have that right protected. Holidays are sometimes based upon the level of your seniority and we think that should be protected.

We think any benefit should be protected and compensated for where he is suffering because he moved from one employer to another.

Mr. WEINBERG. I might add vesting of pension rights acquired on previous job will not make up for the loss that the worker suffers while unemployed between jobs, so he ought to have pension rights maintained as they are under Amtrak while he is unemployed.

LABOR MOBILITY AND RELOCATION ASSISTANCE

Mr. CULVER. The underlying premise of adjustment is the theory of labor mobility and in your fifth modification you suggest that a relocation bonus should be paid to those workers who move from one community to another in order to soften the shock of movement to obtain new employment.

Could you comment on desirability of funding research in behavorial psychology to tell us more about measures that might be taken to overcome the very real problem concerning the intangible factors which

engender reluctance to change locations and on ultimately providing adequate counseling services rather than giving a cash bonus?

Mr. FRASER. I would be for any system that resulted in a worker making the adjustment. I think him making the psychological adjustment to his new environment is more important than a cash bonus if that could be arranged. I might say that in a Chrysler agreement where we provided for the transfer of people all over the United States, fortunately for us we had the foresight to provide that the worker could change his mind within 90 days after he arrived at the new location.

You have to then imagine an individual going from Los Angeles to Newark, and into Canada, and several of the workers, because they simply could not make the adjustment and climate, they are leaving their families, changed their minds and went back to California. I think counseling service in that situation might have been very helpful.

Mr. WEINBERG. We suggest something else that Sweden has done that might help the situation considerably. Sweden found that when they attempted to relocate workers, very often the worker would go to a new location, take a job and come back. I think they decided to try something else.

In advance of the worker actually taking the job, they paid the travel expenses for his wife to go with him to look at the housing and community, to look at the schools and so on and they found under those circumstances when the wife was along with the husband and had inspected the community and then the family moved, they tended to stay put after they had moved to a much higher degree than formerly.

Mr. CULVER. This is a standard operating procedure in the case of moving executives.

Mr. FRASER. Absolutely. To underscore your point, which I think is very important which we didn't mention, I think the adjustment you must make in the United States vis-a-vis Sweden, which is a smaller country, is a traumatic experience when an individual—I don't know how much we are offering you when we say we are going to take you from the San Fernando Valley and locate you in Michigan.

A lot of people have never seen snow in their lives and it is a rather traumatic experience and I think the approach of counseling and these other experimental programs would be very helpful.

OLDER WORKERS AND ADJUSTMENT ASSISTANCE

Mr. CULVER. In your seventh modification you suggest that special provision must be made for older workers whose age makes it unlikely that they will be able to obtain suitable new employment. You suggest having their wages and fringe benefits maintained until they reach 65 if they are dislocated at age 55 or older.

Could you comment on the possibility of just accelerating their pension and seniority rights and their social security benefits?

Mr. FRASER. I think that would be a satisfactory approach as long as their income is reasonably maintained. For example, as I mentioned in my statement, in the Chrysler situation we provided for the special early retirement which is roughly equivalent to double the normal retirement from age 55 to age 65. It is interesting to note that almost

without exception in the Chrysler case where anyone was over 55 and could get these benefits, they did not elect to transfer. And I think if given that alternative, the older worker with roots, very, very deep in his community, and as long as he was reasonably compensated, close to what his wages were, I don't think it would be too important as to what form it comes in.

THE RELATION OF ADJUSTMENT ASSISTANCE TO NATIONAL SOCIAL AND ECONOMIC PROGRAMS

Mr. CULVER. One of the recurring problems that I see repeating itself consistently in the course of these hearings is the inevitable relationship of adjustment assistance to broader general social questions, policies, and legislation. You, yourself, of course, have had occasion today to talk in terms of relating the benefits and burdens of trade adjustment assistance to areas of national pension, health insurance, unemployment compensation, and manpower training programs, and the level of certain other social security benefits.

I think the UAW has been very commendably leading the way in a number of social areas, and has made important recommendations to the Congress of the more comprehensive kinds that force us to address ourselves to the proper perspective in dealing with these questions and these issues.

It seems to me that one of the real problems today is that we approach these interrelated issues and problems on an ad hoc unilateral basis totally independent for the most part to how it fits into the overall mix of national problems. It seems to me that when we talk about stimulating labor mobility, having a genuinely competitive economy in an international sense, having comparative advantage, keeping our inflationary pressures down, and so forth, that inevitably we are driven to realization that labor mobility and everything turns on the degree of security and confidence that is represented by a whole panoply of opportunities in various forms of assistance in making these kinds of adjustments.

As I sit here in the Congress, I see how both from a congressional vantage point as well as an executive vantage point we deal in such a wasteful inefficient way in the proliferation of different programs administered by a bevy of different departments. We never seem to put it together, as the young say today, and get these parts to fit in a rational whole.

This isn't just a question of jurisdiction, but I think more fundamentally, it is a question of basic acceptance of philosophy. I realize this is not related to trade adjustment assistance in its most narrow sense, but I think it is inescapably inseparable. I would be interested in your thoughts and what your union is doing with regard to programs to force us to harmonize and rationalize the social consideration of these questions by the Congress and by the executive branch.

Mr. FRASER. Let me mention three areas where for a number of years now we have been advancing programs that would, I think, lead to great amelioration of this problem and you are right, you can't deal with it in isolation. First, I would mention our advocacy of national health security, which fits in this total scheme of things because, as I pointed out, a Chrysler worker in Michigan who is thrown out of

work for whatever the reason, the premiums are $76.51 a month. Obviously if we had national health security, that would eliminate that problem. We have called for legislation on pension reinsurance, which would greatly ease the burden, particularly for those workers who come from single-plant companies and multiplant corporations.

And for years and years, and this is one of the crucial areas that we have advocated, a Government policy of full employment which has fallen on deaf ears for the most part, but if you take those three pieces of—those two pieces of legislation and one policy that we have advocated——

Mr. CULVER. What was the last policy?

Mr. FRASER. Implementing the Full Employment Act of 1946 and if we did that, it seems to me we would greatly—would not solve the problem, but certainly we would ease the burden of those victimized as a result of the policy of our Nation.

Mr. WEINBERG. May I add something to that, Mr. Chairman? We mention in the statement that Sweden is able to follow a policy without arousing serious worker resistance of deliberately destroying inefficient low-wage industries. I would open the door to imports to move the workers to more productive industry that would pay those workers higher wages. Sweden is able to do that sort of thing and relocate industries for reasons that are very well spelled out by Tage Erlander, Prime Minister of Sweden, when he spoke to the Detroit Economic Club a few years ago.

He said:

> Swedish workers have a very positive attitude toward rationalization and relocation of industries. This attitude might at first glance be looked upon as surprising, because all of these measures, useful in themselves, also are creating great problems. The private citizen may get into difficulty over various kinds. But if the citizen can trust the society when he comes into that situation, then his attitude will be positive.
>
> We look upon it as a duty of society to protect an individual in a situation for which he is not himself responsible. Our philosophy is that the rapid and necessary changes must not create fear.

That goes to the philosophical points you raised before. If we could adopt this kind of attitude toward people in this country and cease to think of them as productive industries, and take care of them, when society feels that this situation be disturbed or changed in some way, then I think we would be way ahead in achieving some of the goals of this society.

Mr. CULVER. In this connection, during a recent television program in the tragic aftermath of the assassination attempt on Governor Wallace, one of the participants in the discussion, a former member of the Warren Commission study on the problems of violence in our society, talked about the personality characteristics of those who have been involved in these incidents. He cited the uniformity of insecurity and loneliness that characterizes their personality makeup.

He talked about a number of problems relatively unique to our society that perhaps gave rise to a higher percentage of these kinds of personality disorders than other social situations are faced with. One of the things that he particularly cited and expressly referred to was the absence of an adequate health insurance program in this country.

Obviously, a major focus of the discussion centered on gun control

legislation, but he cited the lack of a national health insurance program as a specific example of the type of insecurity that is bred within the current social and political and economic system, which aids and abets this kind of personality shortcoming in our citizens.

I think this is something that we all have to think about in a far more fundamental way than we do in some of our deliberations on particular programs. I think in many cases we in Congress are guilty of thinking in terms of a magic panacea, whether it is called the war on poverty, or dealing with a rather narrow constituency in a particular program approach, which frankly if not coordinated properly, oftentimes represents a tremendous waste of money and very little result in terms of cost and benefit ratios.

I think one of the things I am struck by in the whole course of these hearings is the necessity to widen our perspective when we discuss adjustment issues. Above all, in practical terms, we need to consider congressional and executive branch governmental reform leading to coordination in the consideration of these issues.

Congressman Fraser.

DISLOCATIONS CAUSED BY LOSS OF EXPERT MARKETS

Congressman FRASER. Thank you, Mr. Chairman.

I want to apologize for being in and out during the discussion here. I don't want to cover ground that has already been covered and I am only two-thirds through your statement. Having said that though, I want to ask, and if you have gone into this tell me, one of the ideas that seems to gain more support is the notion that we should not limit relocation assistance to dislocation created by foreign imports, that if a worker is out of a job, whether from international competition, the disaster to him and his family are the same. So that we ought to be looking generally at the problems of dealing with persons who are put out of work.

Have you covered this side of it?

Mr. FRASER. Yes, I think I responded to a question and made the statement that we would subscribe to that notion. We request whether or not you can do both things in one swoop. We are suggesting making the Amtrak approach in terms of the supporting our national trade policy. But certainly we would have no opposition. I agree with you a dislocated worker is a dislocated worker and to him it makes little difference from where the problem arises and certainly I think it would be sound national policy to get protection to a worker who is dislocated no matter for what reason.

DISLOCATIONS CAUSED BY GOVERNMENT POLICIES

Congressman FRASER. There is another kind of casualty that we have through Government policy that we have seen in the last 4 years. The Government decided to put the brakes on the economy and resulted between 2 or 3 million more workers are out of jobs now than at the start of that policy, and this is clearly aimed at the objective of restraining inflation and it did not work.

It seems to me that is as much a choice of national policy options as is the continuation of a free trade policy.

Mr. FRASER. That is why we suggested that the burden upon American workers is much greater than that of his counterparts. In this country unemployment over a span of 11 years is 4.8, while in Japan and European countries it is 2 percent. When you are thrown out in the street in our society, under the current economic situation your opportunity of gaining employment elsewhere is rather meager when you have 5.9 percent unemployed.

Mr. WEINBERG. On your inflation point, William Buckley, vice president of Chase Manhattan Bank, said if it takes unemployment to combat inflation, then the unemployed should be paid for it.

Mr. FRASER. The UAW had a letter to a worker saying, "Congratulations, you have been selected to do a service."

When I think about these kinds of problems, I come ultimately and I think maybe one is compelled to the problem of maintaining full employment. Displaced workers today are in a softer job market and even if you give them retraining and good Amtrak-type benefits, most people want to work and they don't enjoy sitting and drawing money.

So I had proposed in testimony before the Labor Subcommittee in the House expenditure of $30 billion, which I estimated would put between 4 and 4.5 million people back to work, which could drop unemployment down between 1 and 2 percent. This might be an enlargement of the public service employment concept, but maybe in the private sector methods of spending it for more objectives such as problems of the environment and so on.

It would seem to me that really effective adjustment assistance would ultimately lead one to that kind of result that we really give full meaning to the 1946 Full Employment Act.

When we negotiated SUB benefits in the auto industry, we said we hoped we never had to get the benefits. I feel the same way about Amtrak. It is there for protection and gives the worker security, but hopefully you would never have to use the benefits and never have to, because he can also find alternatives.

As you point out, the city in which I live, Detroit, the unemployment is now 8.8, far above the national average. If an auto worker becomes unemployed, there is no reasonable hope he can get employment elsewhere.

Mr. CULVER. Thank you very much, Mr. Fraser.

Mr. FRASER. Thank you, Mr. Chairman.

Mr. CULVER. This is a very good statement. It is going to be very useful to the subcommittee in their deliberations.

Thank you very much again to all of you for coming and for providing us with this extremely helpful statement. Mr. Campbell.

STATEMENT OF JOHN H. CAMPBELL, ASSOCIATE GENERAL COUNSEL, UNITED RUBBER, CORK, LINOLEUM, AND PLASTIC WORKERS OF AMERICA, AFL–CIO

Mr. CAMPBELL. It is an honor and privilege to be able to discuss the trade adjustment program and to follow such an eloquent speaker as Mr. Fraser, we welcome the opportunity to appear before your committee and to present to you some of our feelings on the trade adjustment program as we have found them to be in the past.

One thing we should make clear at the outset is that we do not believe that a program offering relief or Federal assistance is a meaningful answer to the concept of maintaining full employment in our economy.

We do not feel that the taxpayer should be called upon to subsidize their brothers and sisters or other American workers who have been placed out of work for the benefit and caused by the American multinational corporations who have left this country to erect structures in other countries, to take advantage of their labor conditions in those countries, and to produce goods that many times are to be sent back to the United States in direct competition with companies which they have left here in the United States to continue building or manufacturing goods.

We don't feel that trade adjustment assistance program is, as you have stated before a panacea, a cure-all for all of the ills that have been created by the increased amount of imports coming into this country.

On the other hand, we feel that to allow a wound such as this on the economy of our Nation to be left unattended is certainly not the answer, either.

So, therefore, we welcome this committee making a study into the present adjustment assistance program and to hold public hearings to find out our feelings on it.

I have read the statement of Mr. Fraser. I have also read the statements of other people who have appeared here and rather than enter into a similar scholarly type of presentation to you, I want to merely present to you what we in the URW have experienced working directly with the trade adjustment assistance program in our factories in the United States.

I accepted a position with the rubber workers union approximately 2½ years ago and one of the first assignments that I had was to find out how imports were hurting our people.

We found that increased imports were affecting our people in the rubber sole canvas upper type shoes—what we used to call sneakers, or tennis shoes—bicycle tires, bicycle tubes, toys, dolls, games, protective rubber and protective vinyl boots, balloons, catheters, syringes, golf balls, and were it not for the next item, I don't think that the auto industry would have an industry, rubber tires, without tires, I am certain their cars would not go anywhere.

As a direct result of the increased imports in these fields, I found that many of our people were being underemployed, threatened with unemployment and actually unemployed.

Also, one of the first tasks I was assigned as associate general counsel for the United Rubber Workers, was to find some way that we might be able to help those people who were put out of work or adversely affected.

Consequently, we were introduced to the Trade Expansion Act of 1962 through the Department of Labor and as mentioned in one of the other reports, with the help of Mr. Edgar Eaton, who heads up that particular department and works with the adjustment assistance program.

We filed on behalf of one of our plants in Woonsocket, R.I., formerly known as local union No. 224, a petition, stating that our people

there had become underemployed and in fact, were to be completely unemployed by the end of April 1970.

The company had told us that the reason that they were discontinuing the services of this plant was because they were faced with imports that were causing them to lose business and to lose profits.

So, we made a study of the plant, of the people who worked there. We also made a study of the imports that were coming into this country. We also made a study of the reasons that the increased imports were coming into this country.

I met with their attorney in New York and we went to Woonsocket, R.I., after which we filed two petitions with the U.S. Tariff Commission.

Ours was filed on behalf of the production and maintenance workers while the company's petition was filed on behalf of the clerical salaried and nonproduction and maintenance workers.

The Tariff Commission met and made a 3-to-2 favorable decision, which incidentally, was only the third decision favorable to any industry in the United States since the inception of the act in 1962. The workers were granted the right to apply for trade adjustment assistance. They did and received its benefits.

However, in the report, that was published by the Tariff Commission on the reasons for the 3-to-2 vote, there were 15 pages of dissent. At the end of the dissent, two of the commissioners concluded: "In the complex of factors influencing the company's (Uniroyal) decision, the effect of competition from imported shoes would not appear to rank as a major factor."

They concluded this in spite of the fact that two former reports published by the Tariff Commission in 1970 on rubber and nonrubber footwear, reached the conclusion that imports coming into the United States were adversely affecting the rubber canvas upper sole type industry.

Shortly after that petition was approved, we filed a second petition on behalf of Uniroyal workers in the town of Mishawaka, Ind., which is just outside of South Bend. We also filed for shoeworkers located in Rock Island, Ill., the Servus Rubber & Canvas Shoe plant. Even though these petitions were based on the same set of facts and criteria as set forth in the Woonsocket petition and the same statistics were used showing a reduction in import tariffs and goods coming into the United States, the Tariff Commission decided on a split (2-to-2) decision that they could not reach either an affirmative or negative decision and they would leave it up to the President of the United States to determine whether or not the industry had been hurt and the workers therefore eligible for TRA. This decision was made in spite of the previous decision. I only point this out to show you that precedents are not always used by the Tariff Commission in its findings.

On page 7 of my report, I set forth another petition that was filed by the United Rubber Workers on behalf of a local union in Indianapolis, Ind., where bicycle tires and tubes were being manufactured, and whose plant was entirely shut down because of imports coming into the United States. It was definitely shown that foreign imports had captured control of 85 percent of the American market in the consumption of bicycle tires and bicycle tubes. As a matter of fact, only

two U.S. factories now manufacture these items. One is in Pennsylvania and the other is in Massachusetts.

The next petition or group of petitions that were filed and which subsequently received a negative determination were the ones on toys, dolls, models, and games. These were filed on behalf of the workers in a plant that we represented and is owned by Mattel Corp. In that finding, 87 items were deliberately deleted or asterisked out as being part of confidential information that the Commission figured should not be made public for anyone else to read.

The next petition we filed was on behalf of the Goodyear Heel, Sole & Shoe Workers in Windsor, Vt. In that particular case, the workers were threatened only with underemployment and not complete unemployment. Again, we received a negative determination.

We then filed another petition and only last week, we received a report that our petition on catheters and syringes was determined in the negative. The workers were declared ineligible to qualify and receive tariff assistance.

In the two petitions, in which we received a favorable report, the companies also filed petitions. In other words, they joined with us in asking for adjustment relief for all of their employees.

It is also interesting to note that of the three Commissioners who originally voted for adjustment assistance, only one now remains on the Commission, the other two having been replaced by people who have usually voted in the negative on petitions that have been sent to them. I don't mean to cast aspersions, but only wish to show an apparent change in the current philosophy on TRA.

I want to point out to you and referring to page 8 of my report, a firsthand report of what happened to the people who received TRA. It is nice to submit theoretical-type papers and to speculate on what will happen and what is going to happen, but I think it is more concrete that if you want to find out what the war is like, you ask a soldier fighting in the front lines. Ask him and he will probably tell you that war is hell.

I think if you go to people who are receiving relief assistance and ask them what it is like, you are going to get a similar answer. After working all your life relief is hell.

We interviewed, of our 900 workers at Woonsocket, R.I., over 50 percent of them to find out what was happening to them. We also received from Mrs. Hackett, who is the employment security officer in Rhode Island, a complete statistical breakdown as to the number of people who received TRA weekly assistance, the people who received training and the number of people who went back to work; 906 employees actually filed for TRA; 738 received individual counseling. That is, these people went into the Employment Security Division, told the people there what they were capable of doing, what their interests were and took their Rorschach tests to find out where their interest lay; 287 of them commenced a training program and I was surprised to find out that 207 out of that 287 completed their training. These were not all young people. These are people who are 40 and over, people who are not far away from retirement years and yet far enough away from high school that you might think they would not be interested in school training programs. Thirty-five still are enrolled in the

program and only 45 have dropped out as of this date; 172 people have been reemployed as a direct result of that training program; 327 out of the 906 people who originally applied are now working again.

The types of jobs they have are listed in my written report. There is no use repeating them to you, but they rank from a practical nurse to an IBM programer.

The cost of this program for a period of approximately a year and a half, including all of the benefits that they received, that is weekly benefits and the cost to train these people, was approximately $3½ million.

In Mrs. Hackett's words, the results of the retraining program was "especially gratifying." I have attached her letter to this exhibit and I have also attached our statement in the rear from our international president as to our standing on the Trade Expansion Act as he sees it.

Out of this entire program, out of these 900 people who applied for tariff relief assistance, one family moved to Los Angeles, Calif.

They called the district office to find out what they were to do in the trade adjustment assistance program. I had them come down to the office for counseling. This is the only family I know of that moved from Woonsocket, R.I.

We had another program that was put into effect in South Bend, Ind. There, we had 1,165 workers who applied for TRA and almost 1,000 of those people were declared eligible; 165 of them were rejected. Of those 165, there are appeals right now that are pending.

That program cost the Federal Government $3¼ million even though there was not one person offered retraining. No one was given the opportunity to learn another trade or to find themselves another job through adequate training.

The appeals go back to 1971. Near the first part of 1971, those people who were previously rejected filed objections to the employment services original determination and thus, began a period of review going through the procedure established by State laws as presently called for in the act. The State law establishes the procedural process of appeals from an original board adverse determination which are the same as their unemployment compensation laws.

In August 1971 hearings were held on these appeals. For those people who again were rejected, further appeals were taken to the board of review for the State employment appeals security division.

We still have not had a final determination on those cases. Over 4 years has elapsed since these people were originally knocked out of work. If this program of trade adjustment assistance is a plan that attempts to frustrate workers who feel that they are entitled to it, then the program is succeeding beyond anyone's wildest expectations.

But if the purpose of the program is to immediately get people who have been in the labor market to return to the labor market and go to work, then our present program is not succeeding as it should.

I could reiterate some of the things that Mr. Fraser has said when he was asked about what can be done, what is the future for the program. I think as he does that trade adjustment assistance is only a small part of a big program that we have got to look into.

I think we must review our complete international trade policies. I think we should make it a part of it. Trade adjustment is not some-

thing you can overlook and say if a company folds up its business, if it goes overseas, that is the way it is and that is the way companies do.

I think any time our Government does something that causes any person to lose his job, to cause him to lose the employment that he has had for several years, then our Government has got to do something to help that person.

I don't think that a 1-year dole of $75 is going to replace the job that a person has had for many, many years. I don't think that placing this man back in the job market at the lowest part of the seniority level is going to help him. I don't believe that just paying adjustments assistance to the worker, himself, is an adequate program. I think it has to go beyond that. I think we have to have those things Mr. Fraser talked about. I think we have to incorporate some of the programs our other speakers have talked about in offering to this worker and his family the security that he has spent so long trying to achieve.

If you go back to the town of Woonsocket just for a moment, take a typical family or a worker who has worked in the shoe factory for 20 or 25 years, starting at the age of 18, and at the age of 43 finds out that the doors of the shop are closed, you will find that his deeply imbedded roots in that community defy transplanting.

His life is there. His children are growing up and are an integral part of that community. They look to the corporation for employment. Then all of a sudden the multinational shuts the doors of the plant that supplies the lifeblood to that community. This is not fair to the worker or to the people who rely upon the income and taxes from that company for their existence.

We need to begin a program that goes much more deeper than offering just a dole. I have set forth our recommendations in our written testimony. I am certainly glad, Mr. Culver, that your committee is looking into this and rather than sit here and read my entire statement, I feel that I have condensed it enough that you understand better the feeling of the United Rubber Workers insofar as adjustment assistance is concerned.

(The prepared statement of Mr. Campbell follows:)

STATEMENT OF JOHN H. CAMPBELL, ASSOCIATE GENERAL COUNSEL, UNITED RUBBER, CORK, LINOLEUM AND PLASTIC WORKERS OF AMERICA, AFL–CIO, CLC

The United Rubber Workers of America International Union appreciates your invitation and welcomes this opportunity to review the past record, to cite examples of the success and failure of the program and to offer its suggestions for future trade adjustment assistance programs. One thing should be made clear at the outset. We do not believe that a program offering relief or federal assistance is a meaningful answer to the concept of maintaining full employment, nor will it serve as a replacement for the exportation of jobs. The American taxpayer should not be called upon, nor can they afford, to subsidize their brothers and sisters mired in the aftermath of despair created by and for the benefit of "American" multinational corporations whose allegiance belongs to other than to this great nation. We do believe that the present foreign trade and investment policies are inadequate and that no amount of piecemeal legislation will correct its inequities.

We are grateful and extremely pleased that this committee is concerned with the present job crisis and has seen fit to conduct public hearings.

The United Rubber, Cork, Linoleum and Plastic Workers of America, AFL–CIO, CLC International Headquarters and Offices are located at 87 South High Street in Akron, Ohio. We represent workers in rubber and allied industries located throughout the United States and Canada.

The recent upsurge of imports from foreign producers has had a tremendous impact on our members who were engaged in the manufacture of the following articles: rubber soled canvas upper shoes, bicycle tires, bicycle tubes, toys, dolls, games, protective rubber and vinyl boots, balloons, catheters, syringes, golf balls, passenger tires, truck tires and the component parts of shoes; heels and soles. As a direct result of the increase in unemployment, threats of unemployment, and underemployment, our International caused several petitions to be filed with the United States Tariff Commission seeking trade readjustment allowances for "adversely affected" employees. In two of these cases the company filed its petition on behalf of the salaried and non-union clerical and technical workers. We were successful in receiving a favorable or an affirmative determination certifying the workers eligible to apply for benefits under the guidelines established by the Trade Expansion Act of 1962.

The Trade Expansion Act of 1962 authorizes adjustment assistance to industries, firms and workers who are "adversely affected" by the operation of Presidential changes in import duties and the imposition of restrictions through trade agreements. This assistance to the workers consists of trade readjustment allowances (TRA), relocation allowances and subsistence and transportation payments, the latter of which the adversely affected workers become entitled to when referred to and participate in a training program. The allowances and payments are funded by the Federal Government while the manual operation of the program is handled by the various states under their laws and is processed through the states' employment security agency.

The Act provides two ways by which workers can be certified as eligible to apply for adjustment assistance: (1) a group of workers (three or more) may petition the Tariff Commission for a determination of eligibility to apply for adjustment assistance, or (2) after receiving a finding from the Tariff Commission that an industry is adversely affected by imports, the President may provide that workers in such industry may request from the Secretary of Labor certification of eligibility to apply for adjustment assistance. The latter is seldom if ever used while the former has been the usual method used by representatives of the affected workers. Neither way has been proven to be really effective.

In order to receive an affirmative determination from the Tariff Commission it has to be established by the workers' petition and through an investigation by the staff of the Commission that:

(1) Articles like or directly competitive with those produced by the workers concerned are being imported in increased quantities.

(2) The increased imports are, *in major part*, the result of concessions granted under trade agreements. (Emphasis ours.)

(3) A significant number or proportion of the workers are unemployed or underemployed or are threatened with unemployment or underemployment, and

(4) The increased imports resulting, *in major part*, from trade agreement concessions have been the major factor causing or threatening to cause the unemployment or underemployment. (Emphasis ours.)

If any one of the above criteria is not satisfied, then the Tariff Commission must, by its interpretation of the working of the Act, make a negative determination.

The criteria established by Section 301(c)(2) of the Trade Expansion Act of 1962 and listed hereinbefore is both impractical and is capable of various interpretations. For instance, and taking the example of a pure case as contemplated by the Act, the URW filed its first petition with the U.S. Tariff Commission in February of 1970 on behalf of the production and maintenance workers of the Uni-Royal Rubber Footwear Plant of Woonsocket, Rhode Island, URW Local Union No. 224. A similar petition was filed simultaneously on behalf of the salary and office personnel by the companies legal representative. The company, the Union and the U.S. Department of Labor agreed that imports, as a result of the lowering of duties on these articles, was the cause of the loss of business to the company.

UniRoyal, Woonsocket, primarily produced rubber soled canvas upper type short shoes commonly known as "sneakers" or "tennis shoes." The plant employed in excess of 900 employees for several years prior to its announced date of closing, April 6, 1970. To repeat, the company, the Union, the U.S. Department of Labor and the Rubber Manufacturers Association attributed the closing to increased competition, mainly as a result of imports. It was noted and proven by the Petitioners that the imports increased as duties were lessened under the

Kennedy Rounds. Applying these facts to the "criteria for TRA", we find that (a) articles directly competitive with the domestic produced article were increasing, and (b) all of the employees were unemployed. These conclusions were, of course, in our minds undisputable.

The United States Tariff Commission in its Report to the President on Investigation Nos. TEA–W–13 and TEA–W–14, TC Publication 321 dated April, 1970, split 3–2 on a favorable determination finding the workers eligible to apply for adjustment assistance; however, there was included in the report a lengthy dissent by Commissioners Glenn W. Sutton and Herschel D. Newsome who found that the only criteria met was the fact that a significant number of workers were unemployed. In no way could they agree with the majority that the other three criteria had been met. Thereafter we find their dissertation on the application and usage of terminology as found in the Act. Their dissent ended on page 27 with the following:

"In the complex of factors influencing its (UniRoyal) decision, the effect of competition from imported shoes would not appear to rank as the major factor."

This statement was preceded by 15 pages of an academic discussion of the economics of the buyers in the shoe industry, factors affecting imports, reason for closing the plant, lack of increasing imports, changing styles and the meaning of the term "like or directly competitive."

So really the main issues evolve not on the threats of unemployment or underemployment or increased volume of imports, but the cause of either or both; and that must be determined first as to whether there was a trade agreement with duty adjustment accompanied thereafter by an increase of imports caused by these changes, concessions and agreements; and secondly, if those changes were, in major part, the cause of the increase. Or more simply stated; our government must have done something to have caused the imports to increase. Suppose though, for arguments sake, that our government did nothing to stave off the tide of imports or sat idly by while they increased, wouldn't this nonaction be a factor if unemployment, threats of unemployment or underemployment followed. Suppose a manufacturer dumps goods and corners the market in a particular item causing the American producers to drop out. If legal redress took an unusual length of time in correcting this, would it not be a factor? As a matter of fact the bicycle tire producers are now being considered as "dumpers." The workers obviously would not be entitled to TRA, and would not be entitled to relief, if the present guidelines were strictly interpreted or adhered to.

Subsequent to the decision on the Woonsocket UniRoyal petitions, TEA–W–13–14, petitions were filed on behalf of the production and maintenance workers of the Mishawaka, Indiana UniRoyal footwear plant, URW Local Union No. 65 (May 25, 1970); and on behalf of the production and maintenance workers employed at Servus Rubber Company Footwear Division, Rock Island, Illinois, Local No. 215, URW (June 1, 1970). These were combined by the Tariff Commission with a petition filed on behalf of the production and maintenance workers of the B. F. Goodrich Footwear Plant in Watertown, Massachusetts, Federal Local Union No. 21914. The facts in all three petitions were essentially the same as the facts in the Woonsocket case. The Commission, however, split 2–2 and the deciding vote was thereafter cast by the President making it an affirmative determination. The results of two cases are presented to show that precedent cases are not binding and that the criteria established by the Act is confusing and capable of different interpretations even when similar dates and information of a prior case is used as a basis for that determination. Why the difference? Because the established standards just don't fit the situation, nor are they geared to solving the problem created by our government or by increased imports. They are not realistic.

Subsequent petitions were also filed by the URW International Union on behalf of the following groups of production and maintenance workers:

(1) Bicycle tires and tubes—Local Union No. 110, URW, UniRoyal Tire Company, Indianapolis, Indiana, Worker Investigation No. TEA–W–20, TC Publication No. 35. (Negative determination.)

(2) Toys, dolls, models and games—URW Local Unions Nos. 458 and 766, Mattel, Incorporated, Hawthorn, California and City of Industry, California, TC Publication No. 372, Investigation Nos. TEA–W–66 and TEA–W–67. (A negative determination was made on both petitions.)

(3) Heels, soles, and soling sheets—URW Local Union No. 289, Goodyear Tire and Rubber Company, Windsor, Vermont, TC Publication No. 441, Worker Investigation No. TEA–W–117. (Negative determination.)

(4) Rubber catheters and syringes—URW Local Union No. 110, B. F. Goodrich Company, Riverside, New Jersey, TC Publication No. 482, Worker Investigation No. TEA–W–135. (Negative determination.)

It is interesting to note that of the Commissioners who voted in favor of the workers in TEA–W–13–14, not one is now a member of the Commission.

Actual implementation of the program has been relatively satisfactory in one case and terribly frustrating in the other. The first experience we had, and I might also add, one of the really first ones for the Department of Labor was with the Woonsocket, Rhode Island plant (TEA–W–13–14). First in that all of the provisions of the program were in effect. Keeping in mind that over 70 percent of the plant were women, most of whom were not heads of a household, and that only one family relocated to another area, our investigation revealed the following:

906 employees filed for TRA; 738 received individual counseling; 287 commenced a training schedule; 207 completed their training program; 35 currently enrolled; 45 dropouts or did not complete; 172 reemployed as a direct result of training; and a total of 327 were reemployed.

Types of reemployment positions

1. Practical nurse.
2. Clerical, secretarial, and bookkeeper.
3. Maintenance mechanic.
4. Cosmetologist.
5. Medical secretary.
6. Auto body mechanic.
7. Tractor trailer mechanic.
8. Medical technician.
9. Air conditioner mechanic and repair.
10. IBM programmer.

Rhode Island received	$3,657,787
Reimbursed to Government	548,716
Net Cost	3,109,071
Training	350,936

The statistics were compiled and submitted by Miss Mary Hackett, Director, Employment Security Division, Providence, Rhode Island. Ms. Hackett observed that the program is relatively effective, especially in its impact on the economy. "The results of the retraining program," she added, "was especially gratifying." (See attached exhibit from Mary Hackett.)

The second group of workers who received TRA were the workers at the Mishawaka, Indiana, UniRoyal plant. Joseph Deranek, Employment Security Managreement No. 1 of the South Bend Employment Security Office, submitted the following:

Former workers applied for TRA	1,165
Declared eligible to receive TRA	998
Average weeks claimed by employees	43.4
Total of all weeks claimed by employees	43,276
Average weekly payment per employee	$75.55
Average total per employee	$3,275.89
Total amount disbursed	$3,269,336.40

Mr. Deranek also reported that there were no applications for relocation allowances. Bearing in mind that approximately 90 percent of the applicants were women, he felt safe in estimating that most of these were not heads of the family and that many were not reemployed or had retired; most of the men, on the other hand, were reemployed or had taken their early retirement.

The unusual part of this TRA program was the factor of retroactivity. Many adversely affected workers had been unemployed for as long as two years. Despite the fact that the workers were certified in 1970, their impact date or date their eligibility was to begin was established as 1968. Therefore many of the employees were entitled to the full year's payment in one lump sum, which of course they accepted. Schooling or retraining were never offered nor were adequate guidelines ever supplied to the workers.

Another sad experience occurred in the handling of appeals from the Division's initial determination to the State of Indiana Appeals Division. As of this date there are over 60 individual appeals lodged in that section. Although timely

appeals were made by the legal representatives for the claimants, 15 months elapsed without a determination. Considering this with retroactive aspect, it means that 4 years have passed without there being a final decision. True, many of the appeals will probably be sustained by the State of Indiana Appellate Division and there will be further legal actions. I envision at least 6 years before a final order is made if we continue as we are now going. If this really is what the bill was intended to do for adversely affected employees, it has exceeded beyond anyone's wildest expectations.

Many speakers appearing before your Committee have, by necessity, based their conclusions, recommendations and suggestions on the statistical figures supplied to them by their research department, governmental sources and trade related publications. There is absolutely no question that these estimates of averages and monetary amounts of imports are correct and that they forecast a tragic result for the future security of the American worker. I have read the reports of several previous speakers and agree with many of the statements made therein. I particularly endorse the Statement of Mr. Andrew Biemiller, Director of the Department of Legislation, AFL–CIO, and the Statement of Messrs. Sheehan and Bernstein, United Steelworkers of America, which were presented to your Committee.

I don't want to repeat what is in these reports or become unduly repetitious with statistics, nor will I repeat the purposes of the pending Burke-Hartke bill as a proposed solution to the present trade crisis; however, it goes without saying that we endorse that legislation and recommend its passage, (see attached letter) and that we also agree with the aforementioned speakers' conclusions.

Rather than relying on cold figures and statistical data representing people to determine the effectiveness of the present adjustment assistance program, we are basing our recommendations on the actual effectiveness it brought to the community, its businesses, schools, local government and the effectiveness on the welfare of the displaced worker and his family. The success of the program was gleaned from personal interviews with people representing the aforementioned: clergy, small businessmen, civic leaders and the workers themselves. For a time the local economy did not suffer too much because the workers were receiving their full weekly TRA allowances. However, after these were exhausted a notable drop in spending and purchasing was apparent. Retail sales were down, church giving shrunk and property values declined because of the belt tightening. Basic necessities were the only true luxuries available. Relocation was a rarity—since no one really wanted to relocate—besides, where do you go when you are over 40 with a minimum of 20 plus years in a plant where the only job you ever knew was as a banbury operator, packer, splicer, stitcher or compound mixer. Where do you relocate when your roots are so deep in a community that any upheaval would cause deep and lasting emotional problems to yourself and your family? Where do you relocate when moving means selling your home (which is practically worthless) and losing everything for which you have worked? Suppose you are lucky and do land another job either similar to the old one or as the result of a training program—you will have lost all your seniority and built up fringe benefits and are, as they say, starting from the bottom. Well, that's the way it is, a job is never a lifetime guarantee. Companies fold up or move out or go overseas and leave their workers behind, it happens every day. After all, they owe no allegiance to the loyalty of their employees, nor are they bound to give an advance notice. However, it is not to be expected that our government in any way, by trade concessions or by any other acts, be they active or passive, would assist, abet or encourage or cause any company to leave this country or quit business without insuring to its citizens that they would receive some assistance. Ergo, trade adjustment assistance.

Our people don't want government doles or relief, they want jobs. The money spent at Woonsocket alone for the TRA program would have subsidized the operation of that plant for years and could have guaranteed those workers and that community a type of economic security unsurpassed by any type of government relief program. Since that is not to be, then we must scrutinize our entire trade program in this light and in some way create a workable solution. We believe Burke-Hartke does just that.

In its present form the bill adopts the new theory, Sec. 501: ". . . an article like or directly competitive with an article produced by such workers' firm, or an appropriate subdivision thereof, is being imported into the United States in such increased quantities (either actual or relative) as to contribute substantially (whether or not such increased imports are the major factor or the primary

factor) toward causing or threatening to cause, unemployment or underemployment of a significant number or proportion of the workers of such firm or subdivision."

The effect of this provision is to remove the necessity of a finding that a governmental trade concession had been made, the result of which was the major factor in causing the increased imports which caused the unemployment or threads of unemployment.

Although the new proposals are a necessity to an effective program to replace an ineffective program, it is by no means the answer to our workers' problems, nor will adjustment assistance solve our foreign trade policy crisis. The fact remains that jobs are being exported and our trade problems show no signs of being corrected.

In closing, I would like to refer to the Statement of Meyer Bernstein, International Affairs Director, United Steelworkers of America (April 25, 1972). Other than for his discussion on several of the petitions he has filed, his statements as to the events which he experienced were parallel to the ones I experienced. As a matter of fact, the characters and the plot were the same, only the author is different. We, too, commend Mr. Edgar Eaton and his staff for their assistance and cooperation.

In conclusion, the URW endorses the proposed changes offered by Messrs. Bernstein, Sheehan and Biemiller. We would only add to those recommendations that worker oriented training facilities and educational programs be established to enable all adversely affected workers the opportunity to prepare themselves for adequate available employment. In many communities the entire supply of lifeblood is supplied by one main manufacturing facility. Generations of workers are drawn from its citizens, its taxes supply school funds, related small businesses spin off the plant as suppliers of its vital materials and philanthropic organizations profit from the workers' abilities to give. As the company goes, so goes the community and when the company is gone there must be, by necessity, a vital program designed to regenerate the absent prosperity.

It would be our further recommendation that trade adjustment assistance go beyond just the affected worker and also be made available to the citizenry, the children of the worker who are about to enter the job market and to the civic leaders in the form of planned assistance to develop and attract new industries. The effect of job losses goes so deep that it takes more than a cursory application of medication to cure it. Every effort must be made to get to the deepest root. After all, we are discussing human beings—American citizens—who are our brothers and sisters. They are not strangers nor are they malingerers, they are hard working people whose only request is to give them a job.

If we learned anything at all in Woonsocket, then let us profit by that knowledge. There is an absolute need for the type of program alluded to in our statement. Our people, by their response, proved their ability to bounce back from an adverse situation and start over again. Is it asking too much of our Government to lend them a strong hand? The inequities of the present program are recognized in every quarter except where it counts.

It is our hope that this Committee will introduce the legislation to correct an intolerable situation while recognizing that it is only a small part of a larger problem which ultimately must be faced if America is to remain a strong nation.

Respectfully submitted.

PETER BOMMARITO,
URW International President.
JOHN H. CAMPBELL,
Associate General Counsel.

STATISTICAL DATA

Enclosed herewith and made a part hereof are various charts reflecting recent imports in the tire industry. These charts are submitted for the following reasons:

(a) To advise the Committee of the increase of imports from foreign countries.

(b) To substantiate the loss of American jobs as imports increase (457 American jobs are displaced for every million of tires imported).

(c) To illustrate the potential need for a retraining program for adversely affected employees into more productive endeavors.

(d) To emphasize the need for a new trade policy including restrictive quotas on imported tires.

(e) To serve as an "early warning" of the gnawing, eroding effect these imports are having in capturing a larger share of United States consumption.

(f) To substantiate the opposition of substituting adjustment assistance for restrictions with competitor nations.

EXHIBITS

1. United States Auto Tire Imports (Replacement Tires) 1968–1971.
2. Value of United States Imports of Replacement Automobile Tires 1968–1971.
3. U.S. Truck & Bus Tire Imports (Replacement Tires) 1968–1971.
4. U.S. Tire Report—Auto, Truck and Bus (Original Equipment and Replacement) 1970 vs. 1971.
5. United States Imports—New Passenger Automobiles 1970–1971.
6. United States Imports of Buses and Trucks 1970 vs. 1971.
7. U.S. Motorcycle Tire Imports (Replacement Tires) 1968–1971.
8. U.S. Bicycle Tire Imports (Replacement Tires) 1971.
9. Domestic & Foreign Operations Data—"Big Four" U.S. Rubber Corporations 1971.

EXHIBIT 1

U.S. AUTO TIRE IMPORTS (REPLACEMENT TIRES) 1968–71

Country	Quantity				Percent change, 1968–71
	1968	1969	1970	1971	
Canada	465,648	271,606	550,541	322,766	−30.7
Sweden	118,988	3,905	159,561	26,386	−77.8
United Kingdom	270,740	210,442	648,501	512,083	+89.1
Netherlands	40,919	112,464	110,396	162,408	+296.9
France	1,156,893	1,329,393	1,543,009	1,917,975	+65.8
West Germany	634,639	601,329	625,324	1,132,830	+78.4
Austria	96,570	126,285	239,928	183,630	+90.1
Spain	150,113	128,986	53,617	181,596	+21.0
Italy	532,001	1,141,185	1,309,930	1,292,066	+142.8
Israel	2,184	97,853	202,746	338,344	+15,000.0
Japan	152,654	322,690	715,269	1,415,007	+826.9
Australia	455,754	649,563	617,720	305,818	−32.9
Others	386,939	572,791	617,383	183,621	
Total	4,464,042	5,568,582	7,393,925	7,974,469	+78.6

Source: U.S. Department of Commerce, Foreign Trade FT135.

Observations: There are five countries which each exported more than ½ million replacement auto tires to the U.S. in 1971.

France	1,917,975
Japan	1,415,007
Italy	1,292,066
West Germany	1,132,830
United Kingdom	512,083

Of the five, Japan has registered the most impressive growth since 1968. From 152,654 units in 1968, Japan's exports to the U.S. reached 1,415,007 in 1971, an increase of 827 percent. France, the leading exporter of auto tires to the U.S. in 1971, will probably lose that lead to Japan in either 1972 or 1973 if the trend continues. Israel, having jumped from 2,184 units to 338,344 units in just three years, could reach the half-million level in either 1972 or 1973, and could, if the trend continues, replace the United Kingdom among the five major exporters of replacement automobile tires to the United States.

EXHIBIT 2

VALUE OF U.S. IMPORTS OF REPLACEMENT AUTOMOBILE TIRES, 1968–71

Country	Value				Percent change, 1968–71
	1968	1969	1970	1971	
Canada	$5,064,716	$2,993,024	$8,281,783	$4,155,299	−18.0
Sweden	1,193,883	58,027	1,356,625	202,248	−83.0
United Kingdom	3,409,132	3,166,714	10,931,719	8,357,855	+145.2
Netherlands	484,785	1,002,302	1,185,580	1,929,942	+298.1
France	20,198,473	23,437,906	27,025,754	34,875,951	+72.7
West Germany	10,501,603	8,825,541	7,768,414	16,042,185	+52.8
Austria	1,386,872	1,741,102	3,242,804	3,334,894	+140.5
Spain	1,288,315	1,200,881	632,667	2,025,605	+57.2
Italy	9,031,461	21,057,360	25,206,508	27,715,176	+206.9
Israel	25,623	862,048	1,775,804	3,501,544	
Japan	1,660,836	3,648,039	6,948,693	16,258,946	+879.0
Australia	4,820,171	6,938,433	6,514,596	2,928,817	−39.2
Others	3,991,187	6,549,922	7,145,135	2,577,252	−35.4
Total	63,057,057	81,481,299	108,016,082	123,905,714	+96.5

Source: U.S. Department of Commerce "Foreign Trade FT135."

EXHIBIT 3

U.S. TRUCK AND BUS TIRE IMPORTS (REPLACEMENT TIRES) 1968–71

Country	Quantity				Percent change, 1968–71
	1968	1969	1970	1971	
Canada	68,143	35,808	101,005	59,513	−12.7
United Kingdom	22,719	49,873	98,088	146,508	+544.8
France	244,318	214,220	258,590	299,414	+22.6
West Germany	51,659	62,767	40,301	56,775	+9.9
Spain	73,856	119,072	79,031	166,107	+124.9
Italy	166,530	155,356	144,123	172,993	+3.9
Israel	20,067	31,182	67,753	70,289	+250.3
Japan	63,613	170,060	366,140	481,124	+656.3
Others	36,023	39,109	158,341	62,778	
Total	746,928	877,447	1,313,372	1,515,501	+102.9

Source: U.S. Department of Commerce, Foreign Trade FT135.

Observations: Japan has registered greatest amount of growth since 1968—656.3 percent. Japan is rapidly becoming the major exporter of auto, truck and bus tires to the U. S., although France is the current leader.

EXHIBIT 4

U.S. TIRE REPORT—AUTO, TRUCK, AND BUS (ORIGINAL EQUIPMENT AND REPLACEMENT), 1970 VERSUS 1971

	1970	1971	Percent change
Domestic (total)	194,540,803	211,217,205	+10.9
Originial equipment	46,134,974	55,859,794	+21.1
Replacement	146,508,217	153,405,005	+4.7
Exports	1,897,612	1,952,406	+2.9
Imports (total)	19,400,000	23,234,175	+19.8
Original equipment	10,692,703	13,744,205	+28.5
Replacement	8,707,297	9,489,970	+9.0
Total	213,940,803	234,445,138	+9.6
Imports as percent of total	9.1	9.9	
Imports as percent of domestic	9.97	11.0	

Sources: RMA Report, December 1971, and U.S. Department of Commerce.

Observations: The O.E. figure appearing under the heading "Imports" refers to tires, mounted on cars, trucks and buses imported into this country. It includes those brought in from Canada. It is not an exact figure because trucks and buses were calculated on the basis of five tires each and so represents a slight understatement. However, since most imported trucks are probably small pickups, the figure should not be too far off.

As you will note, imports grew at a faster rate than domestic shipments and consequently raised their share of the United States tire market from 9 to 10 percent. In 1963, imports had less than 2 percent of the market. The growth was most dramatic between 1969 and 1970.

EXHIBIT 5

U.S. IMPORTS, NEW PASSENGER AUTOMOBILES, 1970-71

Country	Quantity			Value		
	1970	1971	Percent change	1970	1971	Percent change
Canada	692,783	802,148	+15.8	$1,806,036,165	$2,396,316,906	+32.3
Sweden	57,844	61,925	+7.1	107,730,490	134,969,943	+25.7
United Kingdom	76,257	106,746	+40.0	104,474,302	151,763,612	+45.3
Belgium	50,602	67,250	+32.9	82,464,789	134,678,410	+63.3
France	37,114	23,316	−37.2	41,010,522	29,095,221	−29.1
West Germany	674,945	770,909	+14.2	1,058,001,345	1,275,483,877	+20.6
Italy	42,523	51,473	+21.0	63,633,494	82,436,903	+29.5
Japan	381,338	703,672	+84.5	455,970,734	928,783,837	+103.7
Others						
Total	2,013,420	2,587,539	+28.5	3,719,387,954	5,133,668,588	+38.0

Source: U.S. Department of Commerce, Foreign Trade FT135.

EXHIBIT 6

U.S. IMPORTS OF BUSES AND TRUCKS, 1970 VERSUS 1971

Country	Quantity			Value		
	1970	1971	Percent change	1970	1971	Percent change
Canada	113,444	134,406	+18.5	$318,638,298	$429,133,667	+34.7
United Kingdom	38	30	−21.1	88,839	63,443	−28.6
Belgium	278	328	+18.0	13,089,103	15,911,197	+21.6
West Germany	1,944	1,729	−11.1	3,199,423	4,648,261	+45.3
Japan	111	24,808		118,170	26,432,310	
Mexico	1	1		1,671	2,095	+25.4
Switzerland	1			2,839		
Total	115,817	161,302	+39.3	335,138,343	476,190,973	+42.1

Source: U.S. Department of Commerce, Foreign Trade FT135.

EXHIBIT 7

U.S. MOTORCYCLE TIRE IMPORTS (REPLACEMENT TIRES), 1968-71

Country	1968	1969	1970	1971
United Kingdom	92,951	115,458	125,679	140,740
Taiwan	23,852	199,925	191,096	143,712
Japan	161,450	307,545	557,435	666,913
Others	52,515	128,845	139,010	186,232
Total	330,768	751,773	1,013,220	1,137,597

Source: U.S. Department of Commerce.

Observations: Japan is, by far, the leading exporter of motorcycle tires to this country, accounting for 59 percent of the total.

The U.S. imported 1,500,533 motorcycles of various sizes in 1971. This meant that over 3 million O.E. motorcycle tires came into this country from abroad last year. Adding the original equipment tires to those imported for replacement, one arrives at a total figure for imported motorcycle tires of over 4.1 million units in 1971. Japan, alone, exported over 1.3 million motorcyles to the U.S. in 1971 accounting for approximately 2.7 million O.E. tires. Foreign motorcycle tires constitute more than four-fifths of the U.S. motorcycle tire market.

EXHIBIT 8

U.S. BICYCLE TIRE IMPORTS (REPLACEMENT TIRES) 1971

Country:	*Quantity*
Sweden	2,847,370
Netherlands	656,200
Korea	814,150
Taiwan	1,229,840
Japan	7,010,831
Others	1,217,352
Total	13,775,743

SOURCE: U.S. Department of Commerce.

Observation: Japan is the largest exporter of bicycle tires to the United States by a 2 to 1 margin over Sweden. Japan is also the largest exporter of bicycles to this country, over 685,000 in 1971.

In 1971, the United States imported a total of 2,340,479 bicycles. Multiplying by two gives an original equipment figure of 4,680,958 tires. In total then, the U.S. imported over 18 million bicycle tires (mounted and loose) in 1971.

At the present time, there are only two U.S. producers of bicycle tires and tubes—Goodyear and Carlisle.

EXHIBIT 9

DOMESTIC AND FOREIGN OPERATIONS DATA—BIG 4 U.S. RUBBER CORP., 1971

Company	Total sales	Net income			
		Total	Domestic	Foreign	Foreign as percent of total income
Goodyear	$3,601,565,000	$170,223,000	$112,791,000	$57,432,000	34
Firestone	2,483,598,575	[1] 120,262,360	80,438,991	39,823,369	33
Uniroyal	1,677,732,000	43,080,000	21,080,000	22,000,000	51
Goodrich	1,236,735,000	[2] 29,834,000	24,343,000	5,491,000	18

Source: Company annual reports, 1971.

[1] Includes extraordinary income of $6,718,333 from sale of interest in a German firm.
[2] Income before extraordinary loss of $28,000,000.

Note: At this time, we do not have sales figures for foreign subsidiaries.

DEPARTMENT OF EMPLOYMENT SECURITY,
Providence, R.I., May 9, 1972.

Mr. NORMAN THIBEAULT,
204 School Street,
Franklin, Mass.

DEAR MR. THIBEAULT: As you requested, I am enclosing two copies of the answers to your questions which my secretary read to you over the telephone this morning concerning the TRA program in Rhode Island.

If you are in need of additional information, please do not hesitate to call me.

Sincerely,

MARY C. HACKETT, *Director.*

Enclosures.

The following are the answers to Mr. Norman Thibeault's questions:

I. The number of people in the program:

A. The Number filed for TRA Benefits	906
B. The Number counseled	738
C. The Number referred to training	287

II. How many completed training (35 currently enrolled and 45 drop-outs | 207

III. The amount of money spent in Rhode Island for:

A. Tariff Relief Benefits	$3,657,787
Amount reimbursed by Federal Government for prior U.I. payments	548,716
Net cash payments	$3,109,071
B. Training	350,936

IV. A. The Number of people reemployed as a result of this training | 172

B. Total Number of persons employed including those trained and others not referred to training | 327

V. What types of jobs they are now holding because of this training: (A) Licensed practical nurse, Clerical occupations, maintenance mechanics, cosmetologists, medical secretaries, Auto Body repairman, tractor trailer drivers, medical technicians, air conditioning mechanics, programmer.

VI. As a result of a review of the above statistics and my first hand knowledge of the program as it was developed and implemented, it is my opinion that TRA in this state was relatively effective. It seems quite apparent that the allowance payment program had to have a favorable impact on the economy of the Woonsocket area. During a period of high unemployment $3,109,071 has been authorized since the start of the program on June 29, 1970. However, I think the significant point to look at is the effectiveness of the program in helping the unemployed return to gainful employment. In this context it is important to understand that most of the employees in the adversely affected Woonsocket Uniroyal firm were long term workers in that plant. They had experience of a nature that was peculiar to to the canvaswear industry and it was the only plant of its type in the area. Such experience was not readily transferable to employment in other industries in an already tight job market. Through the program, however, 738 people were counseled, 315 indicated an interest in training, 287 actually went into training and 172 got job related employment. This I feel is a significant accomplishment when viewed in light of the fact that this was the first program of its kind in this state and the first relatively large one in the country.

(From the Akron Beacon Journal, Apr. 27, 1972)

VOICE OF THE PEOPLE: TRADE ACT NEEDED—BOMMARITO

TO THE EDITOR: The Hartke-Burke bill (Trade and Investment Act of 1972) is an idea whose time has come. Continuing rising unemployment reflects the failure of the nation's foreign policy and of the inability of industrial conglomerates and multi-nationals to voluntarily check our trade deficit. Antiquated, cumbersome court procedures make a mockery of our legal system while violators of outdated trade laws continue their practices without restraint.

Entrepreneurs and profit hungry management of runaway plants, with the assistance of favorable tariff schedule loopholes, exploit Mexican workers while price gouging the American consumer. Our international trading partners subsidize foreign based companies in erecting plants with full knowledge that their products will flood American retail outlets, directly competing with American goods.

Concerned United States corporations readily admit there is a crisis in the import field, yet they offer no viable solutions. The American worker, who has taken the brunt of the effects of increased imports and the exportation of American jobs, demands that Congress take official action to correct these inequities. They are fed up with being the sacrificial lamb on the altar of foreign trade.

Recent speeches by corporate executives on the multi-national rubber companies' position on the bill remind us of the proverbial blind men describing the size and shape of the elephant. While offering no positive, original solutions to the trade deficit dilemma they picayunishly attack provisions of the act which may have a minute adverse effect on their profits and corporate earnings. No thought is given by them to the workers' dilemma, nor are they concerned with the economic problems of this country. "We know no boundaries, we owe our allegiance to the world," claim the multi-national corporate executives.

Organized labor does know boundaries and has fervently pledged its allegiance to the prosperity of this great nation, to its ideals and principles. These very same ideals and principles which provided the multi-nationals with the fertile soil and abundant natural resources to spawn their worldwide offspring. Labor has not groped about like the fabled blind men while uttering asinine statements about the import crisis; it has offered a solution.

The Trade and Investment Act of 1972, albeit not a cure-all remedy, it is at least a start, a giant step, one that looms bold in its philosophy toward our international trade policies. Through this act we seek needed tax loophole closing reform on depreciation and licensing agreements. We call for the repeal of TSUS Items 806.30 and 807.00. Standardized corporate bookkeeping reforms are requested to reveal the real corporate operations and profits.

Sweeping remodeling is sought in the Customs Bureau, accompanied with the merger of operations in the government departments involved in applying Federal trade laws. We ask for meaningful adjustment assistance for displaced workers while improved labor standards and wages designed to help all workers are a must. These are the guts of the Hartke-Burke bill. Compare them to the negative offerings of the multi-national corporations.

The multi-nationals beg poverty while sales and windfall profits soar to ever increasing heights. They lament over increased competition by foreign producers while they at times secretly own shares in those companies or receive profits from licensing and technological agreements. They force labor to renegotiate contracts and to make concessions, agreements and wage reductions while they increase corporate executives' salaries and pension funds by staggering amounts.

They boast of increased employments in fields of research and development, accounting, engineering, quality control and testing, yet they fail to recognize the thousands of production jobs lost in the Akron area alone. They do not admit their lack of a program to retrain these workers whose very livelihood has been snatched from their bosom. They fail to mention the lasting chaos in families and communities when a corporate decision is made to arbitrarily close a plant and move its production to an area where workers come cheap and the profits and dividends are thereby increased.

Imports are here; they are a way of life; but not the only way. Fallacies of consumer benefits are being exposed in every product line. If labor must go back in the trenches to maintain our dignity and to keep our jobs, then so be it; we've been there before and we have been victorious. Organized labor has always faced the issues and accepted the challenge of defending the principles of our convictions. We believe in people and not profits in maintaining the welfare and security of our members. We believe in providing all workers a decent job in a healthy work environment. We believe in fair trade among nations. We know that through the provisions of the Burke-Hartke bill these beliefs can be achieved.

PETER BOMMARITO,
International President,
United Rubber Workers.

ELIGIBILITY CRITERIA

Mr. CULVER. Thank you very much, Mr. Campbell.

I would like to express the appreciation of the committee for your appearing before us today. I think you have given us valuable information about the way the program has operated in the past and the way it hopefully might operate in the future.

I was impressed in your general remarks, as well as in your prepared statement, that you have emphasized that since the criteria established by the Trade Expansion Act for adjustment assistance is impracticable

and capable of various interpretations that frustrates the effectiveness of adjustment assistance. What should the criteria be?

You were privy to the earlier colloquy I had with Mr. Fraser on the general problem of having adequate manpower programs. I have also been struck by the difficulty that I think one encounters in trying to make certain sophisticated distinctions between causes of unemployment and causes of manpower dislocation, whether they are attributable to import competition, or whether they are attributable to the internal dynamics of our own economy and alterations in Government procurement, technological changes, and so forth.

I was interested in your efforts to grapple with the bureaucratic redtape of satisfying this criteria to qualify for assistance. You have indicated how unsatisfactory they are and certainly, the history of this program supports you 100 percent.

What kind of criteria should we have? How do you envision a workable program in this area?

Mr. CAMPBELL. I have had several frustrating experiences with the Tariff Commission in attempting to establish whether or not increased imports resulted in major part of something that our Government did to cause the unemployment of our people. It would seem to me that the one hangup that we have with the Tariff Commission is the interpretation as to whether or not our Government has made any trade concessions with another country. For example, have we actually said:

> Okay in the shoe industry, we will start at 10 percent ad valorem this year, and in 2 years we go to eight percent, six percent until we get down to four percent.

The Tariff Commission has looked at this and said:

> All right, if there has been no concession made, then you are not entitled to trade adjustment assistance. If there has been a concession made and if you can show that by this concession imports have increased, then you will be able to get trade readjustment assistance.

It is rather difficult to show that imports have been increasing as a direct result of a major trade concession. At other times our Government has done actually nothing to stop the flow of imports and this too could be a factor.

Another factor is TSUS Item 807.00 and 806.30. TSUS Item 807 comes into play when another country says to our country or to a company in our country:

> If you send over to us parts of a product and let's assume that a product has four separate parts, if you send those products over to our country, we won't charge you any tariffs on them if you promise that you will only assemble them here and send them back to your country to be sold, or to some other country, but you can't sell them in our country.

Then TSUS Item 807 says if any item as above has been exported to be further processed or finished or assembled and it comes back into this country, then the manufacturer will not be charged for the value added to that product.

You will only be charged to the value that has been added to those parts. If you take a little toy automobile and send over the chassis, the wheels and the motor and a worker in Mexico puts those parts together and sends them back to the United States, you have a finished product. But each individual part has not been enhanced in value. Thus, there

will have been no tariff placed on this particular item only as to the labor.

The company, therefore, has taken advantage of a country that pays very, very low wages. The highest wage paid in Mexico right now in that plant that makes those toys is approximately 65 cents an hour, which includes fringe benefits.

When you compare that to the minimum living wage that has been established in this country, you will find it is much less than that. I feel that because our Government has said you can do this and because it has allowed a company to participate and use that particular tariff schedule, then those people affected ought to be able to be certified as adversely affected employees of the company and be entitled to adjustment assistance.

It would seem to me that in the act where you would remove the words "in major part" and say that increased imports have caused underemployment or unemployment or threats of underemployment, then these people should be eligible to receive assistance.

I agree also with Mr. Fraser that where a company deliberately picks up a plant, I think a company like this, or a company that deliberately shuts its doors to go to another country to take advantage of low wages or exploit the market that they have there ought to be held liable and made to pay for the adjustment assistance of its workers. In testifying before the Ways and Means Committee in 1970, one manufacturer said:

"I bought out a shoe plant in Massachusetts and I closed the doors, took the machinery and moved everything over to Spain, set the company up again and started producing shoes and sent them back to the United States because I could make more money doing it that way than I could here."

COLLECTIVE BARGAINING AGREEMENTS

Mr. CULVER. Do you feel that much of the adjustment assistance can and should be relegated to collective bargaining agreements such as in the kind of fact siutation you posed?

Mr. CAMPBELL. I think it could be inked into your bargaining agreements. However, we tried to do this at one plant and they refused to talk about it. We asked this company, when we were bargaining with them in an attempt to do this very thing as to whether or not they were going to move their plant to Mexico.

At that time, they said "We don't have any such plans." We had 4,500 rubber workers working there. Within 1 year, they did have a plant established in Mexico and within 2 years, the 4,500 people that we had working had been reduced to less than 1,500.

ASSISTANCE FOR LOSS OF EXPORTS

Mr. CULVER. We place, of course, most of the emphasis when we think of trade adjustment assistance, or all emphasis, on provisions for training and new job opportunities when there is a loss of markets due to foreign competition.

Have you ever given any thought to whether or not there should be provision for adjustment assistance when there is a loss of exports due to foreign competition?

Mr. CAMPBELL. A loss of exports. No, I have not.

Mr. CULVER. Certainly, this may be a way in which the program could properly broaden, do you think?

Mr. CAMPBELL. In terms of foreign exports, our companies have, you are talking about exports from our country to another country because someone over there is competing with us?

Mr. CULVER. Yes. Take the situation where a company enjoys a certain percentage of export market in a particular product line. It is experiencing import competition. It gets increasingly intense to the point that certain workers who heretofore had been involved in producing for export are laid off.

Mr. CAMPBELL. This is certainly a reverse of what we are talking about here, whether our workers here faced with loss of job due to imports, whether the reverse would be true.

Mr. CULVER. It would also be part and parcel of the general problem of how you achieve greater efficiency of manpower resources. If you want to achieve that transition, this would be consistent.

Mr. CAMPBELL. Yes. I want to introduce Mr. Clem, who is associate research director of the United Rubber Workers and who would like to say something on that question. But I would like to add before we finish, that we have introduced in the back of our statement a series of charts and we have marked them as Exhibits 1 through 9, illustrating points A through F which I hope we can allow on page 16.

To give the committee an idea of what is happening in the tire market and how our imports are being compared to exports, Mr. Clem prepared these charts to show you, for example, that from one country alone, from Israel in 1968, we received 2,000 tires; in 1969, 97,000 tires; in 1971, 338,000 tires, which is an increase of 15,000 tires coming into the United States indicating that our overall average of imports coming into the United States has increased 78.6 percent.

When you take this figure of tires coming into the United States and realize that for every 1 million tires that come into the United States, 457 job opportunities have been lost to American workers, you get an idea of the early warning as we have talked about that the tire industry is getting.

It has been predicted by some of our people that if the current rate of tires coming into the United States continues, that by 1980, foreign producers of tires for automobiles will have gained control of the market.

You might sit back and say, it is not going to continue. We are going to put the brakes on it. We thought the same thing of bicycle tires, from 1960 to 1971, the United States retained only 15 percent of the bicycle tire and tube market. Eighty-five percent of our tires and tubes and bicycle and small vehicular tires are being made in the foreign countries.

When you take a look at the number of Volkswagens, Toyotas, and Datsuns coming into this country, you realize those tires are not made in the United States.

The problem we are facing there is a synthetic answer to the question that you posed.

What do we do about the people who are hurt by exports into our country. Where we used to supply those tires, we no longer do it.

We, in the Akron area alone—at one time considered to be the rub-

ber capital—since 1970 have lost 25,000 jobs. Out of a total population of 300,000 it is getting a little close.

Mr. CULVER. Mr. Fraser.

Mr. FRASER. I was interested in the chart that showed the import of automobiles from 1961, exhibit 5.

Mr. CLEM. That should be 1970–71. It is a typographical error.

Mr. CAMPBELL. Under quantity, if we could change that from 1961 to 1971.

Mr. FRASER. I was going to use that as a basis for a question but maybe I can generalize it.

What these charts generally show, I gather, is the growth of imports.

Mr. CAMPBELL. Yes, sir.

Mr. FRASER. I am going to the larger question and maybe you don't propose to get into this, as you haven't so much on this problem of restricting access to our markets by a quota system, but if you were to take these same figures and run them backward through the 1960's to start with 1961 or 1962 up through the present, is it likely that they would show a similar growth through the whole decade, maybe uneven but a general growth in imports?

Mr. CLEM. Yes, it is.

DO WE NEED TRADE RESTRICTIONS TO MAINTAIN FULL EMPLOYMENT?

Mr. FRASER. The thing that strikes me about this larger issue, and I am not going over the readjustment assistance because I think you have done a first-rate job here, since 1960, when we had a 7-percent unemployment rate, we succeeded in decreasing unemployment to 3½ percent in 1968 and 1969 and then it began to grow again under the new economic constraints of this administration.

I guess the point I am trying to make is that not only in tires and automobiles but in other areas, we have had a growth in imports and yet, during the same period, we were able to decrease unemployment.

Assuming that we are to run this economy in a sensible manner, and I don't think we have, is it possible to live with the growth in imports and still maintain a relatively full employment economy?

There are two kinds of questions. One is the impact on individual families or individual industries or individual communities where you get shifting pattern of imports or competition and the problem that creates.

That is a real one and I could not agree more strongly about the importance of doing something to make this assistance more effective.

But then, there is a larger question about whether in the aggregate, we can in effect have a full employment or near full employment economy, notwithstanding these trends in many areas that show growth in imports into the United States.

Or to rephrase it, do we have to go to quotas to maintain full employment?

Mr. CAMPBELL. Yes. I would say that under our present structure and with the present limitations that we have on exporting our goods to other countries and with the trade resistance that we met in some countries, some of our larger trading partners, it would seem to me

that were we to impose the same restrictions that they impose upon us, that we definitely would have to have quotas.

However, were they to retaliate in a manner that we have done during the past years in effectively reducing many of our tariffs on goods coming into the United States, I feel that we could compete with them.

I would say that labor in the rubber industry, has tried and we have shown our cooperation to work with management in this field by making ourselves more competitive by changing some work habits that have crept into the industry that neither the union nor management could tolerate any longer, and that the people did not want any more.

That we have shown by votes in many of our plants that we are willing to cooperate with management in attempting to make our products more competitive with foreign products. But even with that, I don't think that we are going to be able to compete with imports unless there is some sort of a restrictive quota put on some of the imports coming into the United States.

Did I answer your question?

Mr. FRASER. Yes, but let me go back to why I raised this in this fashion.

In the period 1960 to 1968 or 1969, we had a growth in imports. In other words, a growth in imports that we have seen in the last few years is only a continuation of a longer term trend even though it may have been exasperated by inflation driving up our cost.

Mr. CAMPBELL. I would like to correct you. I don't think the rise in imports in the 1960's was greater than they have been in the last few years.

Mr. FRASER. Right. Of course, the growth in the last few years would have been greater just because of inflation in the United States. Without any readjustment in the value of the dollar, inflation makes it harder for our domestically produced products to compete with foreign imports.

That is one of the advantages of having devaluation of the dollar. But there was a study by the Williams Commission, I haven't seen it firsthand, but it has been referred to, that says that had we not experienced this inflation and therefore the relative disadvantage in price competition with foreign produced products, that the United States would have continued to maintain a trade surplus in its balance of trade.

If that is so, and if we have had a growth in imports during the 1960's, even though it is not nearly as great as in the last few years, then the central question is, and the big policy question is, are we able to continue to maintain almost full employment economy notwithstanding the growth of foreign imports, assuming we don't get caught again in the grasp of a dollar that is losing value.

Mr. CLEM. I would tend to agree with you in theory. Of course, in fact, that was not what happened and we did have inflation and we were hurt to this extent and our people did lose jobs as a result of imports.

But I believe that we could, if we could have a sensibly run economy, we could probably compete with some imports, at least and certainly,

not all because of some of the rather outlandish trade restrictions which other countries imposed upon our exports to the.

So, in theory, I do agree, though.

Mr. FRASER. But to make the theory work, we would have to make other countries eliminate some of their restrictive practices?

Mr. CLEM. I think so. This is part of our position on international trade, that it be a little more fair than it has been in the past.

We are no longer in a position where we can compete with any country in the world regardless of whatever restrictions are thrown up in our faces.

So, I think we have to convince other countries in the world, other industrialized countries in the world to recognize this, and proceed accordingly so that the world economy can benefit rather than just some specific economies around the world.

Mr. CAMPBELL. Suppose we had a comparative theory of trade or that we had free trade and there were no restrictions and we traded our country, being country A, traded with country B on an even basis.

We built tires here and sold them in Country B. They built tires in there and sold them here without any tariff restriction at all. In the United States, which is probably the highest cost country producing per unit manufacturer that there is, in the field of tires under the Kennedy rounds, the tire imports are scheduled to drop to 5½ percent, I believe, this year or next.

The tariff part of it. In country B, we are 17½ percent. So, whatever tire we send to country B, they add 17½ percent to a tire that cost $10 to manufacture, whereas, the tire that cost $9 to manufacture or even $10 to manufacture in their country, if it comes into our country with only 5 percent, let's say, from their country that their tire is produced at $8 a tire, and we charge them 5 percent, we are adding 40 cents to our tire.

To our tire that costs $10 to produce, they are charging us $1.70. So, already the price on our tire is $11.70 and their tire in our country is $8.40. You can imagine what tire the average consumer is going to buy.

I wanted to point out that many people have attacked the theory that imports are a lot cheaper. Perhaps they are at the beginning until such a time as a manufacturer controls the market and once he controls the market, the prices on the particular item will float up to whatever the consumer will want to buy them at.

In the field of tennis shoes, if you will go back when you were young, you bought tennis shoes, the American tennis shoe, there was no comparison to it and it cost $4 or $5 a pair. To get a tennis shoe of the same quality as American shoe, in the United States now, you are paying as much for an imported product as you are for an American product.

Perhaps a few cents less, but they are awfully comparative in price and where they once control a market and women will tell you this in the field of women's shoes, that the prices they are paying for imported shoes for women sold in America are almost as high, if not as high, as the American produced women's shoes.

So, the cost theory of keeping imports at a very minimum is not really quite problematical. I want to quote, if I could, from Mr. Fecteau, who is president of United Shoe Workers.

"Many foreign-made shoes do not sell at lower prices. They do not prevent price rising by exerting a competitive influence. Their whole function is to inflate prices. The wholesale price was $890 million or a price mark-up of 60 percent. The price to the buyer in the store was $1.88 billion, a boost of 111 percent over the wholesale price."

Now, this is starting out with the value of the shoes coming into the United States at $500 million and by the time the consumer paid for them, the net proceeds from the $550 million worth of shoes was $188 billion.

Mr. FRASER. That problem of price competition is very real. One would suppose if there were more than one external supplier of shoes, there would be less competition between them. In other words, if you get a supplier out of Spain or Italy that can undersell the other, price competition should work against the external suppliers as well as against our own domestic suppliers.

Mr. CAMPBELL. True.

Mr. FRASER. But I know that free market is free more in theory than in practice.

Mr. CAMPBELL. In the meantime, what happens to the American manufacturer who cannot compete with those shoes coming in?

Mr. FRASER. I can't contest that and I do think that it is unconscionable for the United States to pursue any open stance with respect to access of goods without helping anybody adversely affected.

There is this longrun question of whether we are going to be better off in the longrun. Somebody said we are all dead in the longrun.

But whether we will be better off trying to maintain a relatively free trade stance if we can't get restrictions imposed that are imposed by other countries and if we can give as much protection as possible to the worker and community and industry affected, not necessarily by keeping them in business doing what they were doing, but giving them a chance for doing something.

Mr. CAMPBELL. If at this plant in Woonsocket, which we previously talked about, and I brought this up with Commissioner Clubb, who was a member of the Tariff Commission at one time, we spent $3–12 million for people in Woonsocket to receive TRA payments.

If that company had been subsidized for $3½ million, our projection was that the plant could have remained in operation for a period of 10 years or more and still remained competitive with imports or with other manufacturers of the same goods.

The labor movement has been criticized as being super-protectionist or moving down the line of protectionism. So be it, if that is the word that people want to use. But we are looking for a system of a fair trade in substitution for a system of free trade because I think the free trade theory has been found not to work and if we had fair trade, I think we could compete.

Mr. FRASER. Thank you very much.

Mr. CULVER. Thank you very much, Mr. Campbell. I wonder if, in view of the time situation,we might submit additional questions to you and obtain written replies for the record.

Mr. CAMPBELL. Yes, sir.

Mr. CULVER. We have some additional ones for Mr. Fraser as well.

Mr. CAMPBELL. Yes, sir. I personally did not submit them in my report because in reading the other reports that we had in adopting

some of the same theories that Mr. Biemiller from the AFL–CIO proposed, and Mr. Myron Bernstein from the Steel Workers, and of course, Mr. Sheehan, from the Steel Workers, I did not know whether you wanted them repeated in our report but I alluded to them in my statement as adopting those in principle to be added to this.

We would be more than happy, Mr. Chairman, to supply you any information that you would need and it can be made public.

We do not supply it with asterisks to be as confidential business information.

Mr. CULVER. Thank you for your testimony today. The subcommittee will stand adjourned.

(Whereupon, at 4:20 p.m., the subcommittee adjourned.)

APPENDIXES

APPENDIX 1

Statement on Behalf of the Electronic Industry Committee for Fair National Trade, New York City, N.Y.

The Electronic Industry Committee for Fair International Trade has recently been organized to deal with a variety of problems concerning the international competitiveness of the electronic products and components industry. In that connection, we believe that the foreign economic policy of the United States should be to continue to seek an expansion of trade with other countries, but the rules under which such trade is conducted must be fair and equitable to all parties concerned. Unfortunately, the existing rules, either in their formulation or their implementation, frequently operate to the disadvantage of American industry, including the domestic electronics industry.

For example, as found by the U.S. Tariff Commission in *Television Receivers and Certain Parts Thereof, TEA–I–21 (November 1971)* unfair practices engaged in by some of our trading partners have contributed to the recent precipitous increase in imports of electronic products and components. This increase, in turn, has been a substantial cause of the closing of a high percentage of the industry's production facilities and of the loss of a great many jobs.

This rapid rise in imports is reflected in the following figures. In 1968 imports encompassed within Standard Industrial Classifications (SIC) 365 (radio and television receiving sets) and SIC 367 (electronic components, including the types of components used in consumer electronic products and industrial electronic equipment) aggregated $854.9 million. By 1971 imports within these classifications had risen dramatically to $1,704.2 million, nearly double the 1968 figure. Imports of radio and television receiving sets alone, during this period, more than doubled, rising from $660.2 million in 1968 to $1,349.1 million in 1971. The pertinent data are set forth in Table 1.

This rising tide of imports has caused our industry serious injury. Domestic manufacturers have been forced to curtail manufacturing in the United States and to procure or make their products and components abroad. The experience in the television receiver field is illustrative. In 1968 a total of 20 United States firms were producing televison receivers. By mid-1971 the number of such firms had declined by a fourth to 15. Similarly, in mid-1971 television sets were being assembled in only 24 establishments—thirteen, or nearly one-third, less than in 1967.[1]

This shutting down of facilities, as one might expect, has had a damaging effect on employment in our industry. Measured over the period 1968 through 1971, average annual employment in our industry groups producing radio and television receiving sets and electronic components (including components used in consumer electronic products and in industrial electronic equipment) as an aggregate declined by 66,400 jobs, a decline of 12.4%. The pertinent data are set forth in Table 2.

To the extent that the continued viability of our industry is threatened by unfair trade practices abroad, we urge that remedial action be taken now. We urge more vigorous enforcement of domestic laws designed to combat such practices and international negotiations to correct deficiencies in existing trade rules.

In addition, we believe that any program for the dismantling of tariff and non-tariff barriers must be accompanied by an effective adjustment assistance

[1] Source: U.S. Tariff Commission, TEA–I–21 (November 1971), pp. A–5 and A–6.

program. The existing program of adjustment assistance adopted in the Trade Expansion Act of 1962 has been disappointing. The failure of that program not only has contributed to the current clamor for protective trade legislation but also impairs the prospects for future liberalization of trade. Therefore, we urge that the Trade Expansion Act of 1962 be modified to provide meaningful assistance for firms and groups of workers displaced by increased import competition.

Specifically, we recommend that the eligibility criteria set forth in Section 301 of the Trade Expansion Act of 1962 should be liberalized to provide that adjustment assistance be available to firms and groups of workers when a trade agreement concession by the United States is a *substantial cause* of an increase in imports of a competitive article and such increase is a *substantial cause* of serious injury or threat thereof to such firm or group of workers.[2] Consideration should also be given to the elimination altogether of the requirement that the increase in imports be caused by trade agreement concessions. It should be noted that the liberalization of eligibility criteria and the elimination of the casual link between increased imports and trade agreement concessions was recommended in 1969 in Special Representative for Trade Negotiations Roth's Report and reflected in the 1970 Trade Bill (HR 18970) as reported by the House Ways and Means Committee.

We also recommend that petitions by firms and groups of workers be filed with the President rather than with the U.S. Tariff Commission. An inter-agency board within the Executive Branch, comprised of representatives of the Departments of Labor, Commerce and Treasury together, perhaps, with representatives of other interested agencies, would be responsible for applying the new criteria. The U.S. Tariff Commission would continue its fact-finding function. This structure was also recommended in the Roth Report and was reflected in the 1970 Trade Bill (HR 18970) as reported by the House Ways and Means Committee. Recently, the Williams Commission on International Trade and Investment Policy also recommended that eligibility for adjustment assistance be determined by the Executive Branch rather than the U.S. Tariff Commission.

Finally, we feel that the adequacy of adjustment assistance benefits, both as to form and amount, should be reviewed.

TABLE 1.—*U.S. imports of electronic products, 1968–71*

(Millions of dollars)

1968:		1970:	
SIC 365	$660.2	SIC 365	$1.136.8
SIC 367	194.7	SIC 367	306.1
Total	854.9	Total	1,442.9
1969:		1971:	
SIC 365	955.2	SIC 365	1,349.1
SIC 367	246.0	SIC 367	355.1
Total	1,201.2	Total	1,704.2

Source: SIC 365 and SIC 367, U.S. Department of Commerce, Bureau of the Census, IM–146–71–12; FT 210, 1968, 1969, and 1970.

Value of shipments: SIC 365, Electronic Industries Association, Marketing Services Department. Includes SIC 3651 (televisions, radios, phonographs, and tape recorders); excludes SIC 3652 (records and magnetic tape). SIC 367, U.S. Department of Commerce, Social and Economic Statistics Administration, Bureau of the Census, MA–36N(70) and MA–36N(68). Data for 1971 were developed based on the projected changes in the value of shipments for the 4-digit industries included in SIC 367 as published in *U.S. Industrial Outlook, 1971*, U.S. Department of Commerce, Bureau of the Census.

[2] The term "substantial cause" is intended to require the demonstration of an actual and considerable cause. A substantial cause in any specific case need not, however, be as great as the major cause (the cause greater than all other causes combined) specified in the Trade Expansion Act of 1962 or even the primary cause (a cause greater than any other single cause) specified in the Automotive Products Trade Act of 1965.

TABLE 2.—EMPLOYMENT IN THE U.S. ELECTRONIC PRODUCT INDUSTRIES, 1968–71

[Data in thousands]

	SIC 365	SIC 367	Total
1968	153.5	381.4	534.9
1969	154.6	387.4	542.0
1970	132.9	351.5	484.4
1971	135.9	332.6	468.5
1968–71:			
Percent change	−11.5	−12.8	−12.4
Absolute change	−17.6	−48.8	−66.4

Source: U.S. Department of Labor, Bureau of Labor Statistics, Employment and Earnings, March issues 1969, 1970, 1971, and 1972.

81–022—72——26

APPENDIX 2

Statement of Timothy W. Stanley, Executive Vice President, International Economic Policy Association

I appreciate this opportunity to present some views in connection with the Subcommittee's hearings on adjustment assistance. This Committee has already heard a number of expert witnesses on the history, functioning and problems of adjustment assistance. The International Economic Policy Association is a non-profit research group which studies major issues of corporate and public policy affecting the U.S. position in the world economy. Perhaps the best contribution we can make to the Subcommittee's work is to provide some comments on the broader international economic context within which adjustment assistance has an important role to play.

Obviously such assistance is only a means to an end; and not an end in itself. It must, therefore, be considered in the light of the fundamental problems affecting the American economy. Adjustment assistance can ameliorate some of the effects of these problems but cannot by itself solve them.

The central fact bearing on these issues is that the United States has been and remains in serious international economic difficulty.

The balance of payments provides both a measure of this difficulty—for it is, in effect, America's international "profit and loss" statement—and, as I shall explain in a moment, it is also a contributing factor in its own right.

In 1971 the United States spent nearly $80 billion abroad—including imports, investments, travel, and government spending. We earned only about $70 billion, leaving a *basic* balance of payments deficit of over $9 billion—a deficit which rose to $23 billion on the *liquidity* balance when errors and omissions and non-liquid, short-term capital flows, etc., are included, and to $30 billion on the *official reserve transactions* balance, representing the net addition of liabilities to foreign central banks.

It is worthwhile to examine the basic accounts which make up the so-called basic balance: trade, that is imports less exports, was in deficit by $3 billion. The Department of Commerce export figures include government-financed exports, such as A.I.D. and P.L. 480, which do not return any dollars for a long time, if ever. If government-financed exports are excluded from our total export figures, the trade account deficit on a purely commercial basis in 1971 amounted to nearly $6 billion. Tourism and travel was in deficit by $2½ billion. Military expenditures abroad less military sales were in deficit by almost $3 billion. Foreign aid, bilateral and multilateral, and other non-military government loans were in deficit by almost $2 billion even after crediting the related government-financed exports. The balance on services and remittances had only small surpluses. The largest positive item was the income earned from foreign direct investments—over $9 billion in 1971, including royalties and fees, and close to $5 billion net even after deducting the related capital outflows. Curiously enough, however, Congress is now faced with several proposals for drastically curtailing the foreign investment which produces the only balance of payments breadwinner we have!

The trends over the past several years have been clear, but they are not widely understood. The private sector has consistently been in surplus until 1971, while our cumulative deficits have been piled up by spending on the government account. The accompanying table shows the average figures for the years 1960 to '64, '65–'68 and '69–'71 broken down so as to allocate earnings and payments into private sector and government categories. Between 1960 and 1970 inclusive, the private sector earned a cumulative surplus (on the basic balance) of $24 billion or $2.2 billion per year on average, while the government or public sector spent a total of $44 billion or an annual average of $4 billion, mostly in the area of foreign aid and military expenditures. This particular outflow is the cause of the massive overhang of accumulated current dollar liabilities held

abroad which now clouds the international monetary scene, and has drastically reduced the world's tolerance for continued annual American balance of payments deficits.

Until 1971, the private sector earned a surplus, but one increasingly too small to offset the public sector deficits. And during 1971, for the first time since 1935,[1] the trade account itself moved into a deficit position, bringing the crisis which had been building for several years to a head.

The trade account, which deteriorated by some $9.7 billion between 1964 and 1971, reveals a variety of contributing factors. They range from such structural factors as obsolescent plan and equipment in certain industries, to rates of American inflation during the sixties higher than most of our trading partners', to unrealistic exchange rates, to declining American labor productivity, to discriminaton aganst U.S. exports abroad.

I.E.P.A. BALANCE OF PAYMENTS SUMMARY, MAY 15, 1972

Accounts	1960–64 average		1965–68 average		1969–71 average	
	Private	Government	Private	Government	Private	Government
Merchandise exports [1]	19,081	2,571	26,781	3,243	37,247	3,166
Income on direct investments	3,785	.....	5,753	.....	8,181	.....
Income on other investments	924	430	1,675	626	2,470	902
Direct investment capital inflow	67	.....	180	.....	536	.....
Other long-term capital inflows [2]	218	256	1,906	28	3,156	−322
Tourism expenditure inflows	1,107	.....	1,811	.....	2,644	.....
Other service receipts	2,668	203	3,621	325	4,832	391
Repayments to the U.S. Government [3]	.....	603	.....	891	.....	1,512
Military sales abroad	.....	559	.....	1,074	.....	1,646
Total receipts	27,851	4,624	41,727	6,187	59,066	7,295
Merchandise imports	−16,228	.....	−26,686	.....	−40,449	.....
Income paid to foreign direct investors	−257	.....	−429	.....	−552	.....
Income paid to other investment in United States	−627	−361	−1,347	−585	−3,064	−1,215
Direct investment capital outflow	−1,846	.....	−3,369	.....	−4,075	.....
Other long-term capital outflows [4]	−1,382	−4,120	−929	−4,885	−1,495	−5,316
Tourism expenditure outflows	−2,530	.....	−3,626	.....	−5,023	.....
Other service expenditures and net remittances	−2,498	−667	−3,354	−1,055	−4,413	−1,206
Gross military expenditure outflows	.....	−3,006	.....	−3,907	.....	−4,834
Total expenditures	−25,368	−8,153	−39,738	−10,432	−59,071	−12,571
Basic position	+2,483	−3,529	+1,989	−4,245	−5	−5,276
Nonliquid short-term capital outflows	−1,156	.....	−563	.....	−1,498	.....
Nonliquid short-term liabilities of U.S. private residents	13	.....	426	.....	272	.....
Unrecorded outflows or inflows	−969	.....	−604	.....	−4,871	.....
Prepayments of debt to the U.S. Government	.....	376	.....	231	.....	127
Overall balance [5]	+343	−3,153	+1,248	−4,014	−6,102	−5,149

[1] Government financed merchandise exports listed as Government exports.
[2] Government liabilities exclude the so-called special transactions such as medium-term Government securities sold to foreign governments, ExImBank certificates of participation, etc.
[3] Excludes debt prepayments, which are included in overall balance.
[4] Government category composed of nonmilitary grants and loans.
[5] This overall balance may be reconciled to the Commerce Department net liquidity balance by adding or substracting as appropriate special drawing rights allocations (line 31 of table 1) and special transactions (lines B22, 24, and 25 of table 5) as listed in the "Survey of Current Business" balance of payments articles since June 1971.

Source: "Survey of Current Business," U.S. Department of Commerce, June 1971, March 1972.

It is important to understand the nature of this trade deterioration, because only a part of it—probably not much more than half—is connected with price-sensitive factors. Yet the optimists who hope that the recent currency realignment will correct the U.S. deficit apparently apply an improvement factor for the devaluation to the entire trade account in order to reach the initial prediction of a $9 billion swing in the trade balance. Our organization has always taken a much more cautious view: first, because history shows that devaluations take a

[1] The last previous trade deficit on "balance of payments basis" was in 1935; on "census basis," in 1888.

substantial time to have their effect on terms of trade; and secondly, because demand in many commodities is not elastic for either exports or imports. More favorable terms of trade will not affect, for example, U.S. agricultural exports now effectively kept out by the European variable levy system or products affected by quotas or licensing restrictions in Japan.

The subject of how we can make American industry more competitive internationally is too complex to go into in detail here. Tougher negotiations seeking reciprocal treatment in other markets in exchange for the relatively open market we maintain is a part of the answer; so is stiffer and prompter action to utilize countervailing and antidumping duty mechanisms against unfairly subsidized exports to this country. And although comparative advantage is a slippery concept in today's economic world, we must maximize advantage where we do have it, principally in agricultural exports and high technology items. There is no doubt that the devaluation of the dollar and revaluation upward of certain other key trading currencies will help the U.S. effort to restore a balance; my point is that devaluation will not alone solve the problem.

What is not always recognized, however, is that the often maligned "multinational corporation" is the cutting edge of America's competitiveness in today's world. The MNC preserves and expands foreign markets by virtue of its overseas affiliations and its ability to utilize global sourcing, management, financing and marketing techniques. Roughly one-quarter of all U.S. exports go to our foreign affiliates, and many of these exports might not occur without the affiliation. The best hope for expanding U.S. domestic economic performance in the international arena is to encourage, rather than curtail, multinational corporations in the direct investments overseas which they manage. Although a causal relationship is difficult to prove, it is surely not entirely coincidental that those manufacturing industries having the heaviest foreign investments have done better in both their domestic employment and exports than those industries having light foreign investments.[2] And, of course, these multinational firms are responsible for a large part of the direct investment income which I referred to earlier as the only balance of payments breadwinner.

With respect to the trade issue, higher tariffs or nontariff barriers such as quotas are always an appealing solution to the industries and workers most affected by import competition. But the advocates of this course rarely take account of the costs. Such measures which contravened the GATT rules would immediately open the United States to retaliation by its trading partners in roughly equal amounts. The Hartke-Burke bill's quota provisions, for example, have been estimated to reduce U.S. imports by $8.4 billion. One has to anticipate retaliatory steps which would reduce exports in a similar amount.

The resulting lower volume of two-way trade would depress not only the economy of this country but that of many others. Even the worthy objective of saving jobs would not be advanced; for there are still more U.S. jobs involved in producing exports than are displaced by imports.

"Solutions" involving protectionism in trade and restrictionism in international investment are bound to be counterproductive. But if the national interest requires continued efforts to maintain the maximum possible freedom of movement for goods, capital, people and ideas, we must ask what can be done to prevent the adjustment burden from falling unfairly on a few. For labor is the least mobile of the capital-management-resource-technology-labor inputs to production. Numerous studies have shown that the activities of multinational companies probably create, in the aggregate, at least as many jobs as they displace through their production in foreign affiliates. While this is a most relevant fact from a national policy standpoint, it is cold comfort to the worker whose job has been displaced.

This brings us, then, to the role of adjustment assistance; and there appears to be a widespread consensus that the present fragmented and highly limited program is totally inadequate to the national need. In the past decade only about 20,000 workers and two or three industries have been helped.

We believe that four things must be done:

First, the program as a whole must be overhauled, upgraded, redefined and reorganized and given central government direction.

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[2] Robert G. Hawkins, "U.S. Multinational Investment in Manufacturing and Domestic Economic Performance," Center for Multinational Studies Occasional Paper No. 1, February 1972.

Second, eligibility must be redefined so as to eliminate the requirement that the injury stem from increased imports due to negotiated tariff concessions. Instead the program should apply to all import-related employment adjustments—and Senator Ribicoff, for one, has recently indicated that he will introduce a bill to accomplish this, among other improvements in adjustment assistance. Benefits can also be expanded and improved in level and duration with particular emphasis given to liberalizing the incentives to retraining and relocation.

Third, mechanisms must be devised for effective government-business-labor collaboration in a dual ssytem of "forecasting": specifically, a reporting network must be established to give "early warning" of skills likely to become surplus. Similarly, the best information obtainable must be used to develop projections of skills likely to be in short supply; and finally, public and private resources must be mobilized to facilitate the transfer of skills from declining industries to new employment opportunities with the least possible human cost and with the economic cost transferred from the individual to the economy as a whole.

Fourth, some formula must be devised to provide a cutoff point in an expanded program so that its costs do not become an additional burden on the competitiveness of the American economy—whether via the inflationary effects of financing by borrowing, or the additional cost of production involved in financing by taxation. Adjustment assisetance can help to alleviate burdens of particular individuals, localities, and skill programs. Such assistance can facilitate transactions; but it will obviously be self-defeating at the point that substantial segments of the labor force are transferred, in effect, to the public payroll—or that it becomes an indefinite subsidy for inefficient or obsolescent industry. At some levels of domestic production displacement by imports, every country finds it politically and economically necessary to restrain further import growth, whether through voluntary quotas, action on balance of payments grounds under Article XII of GATT, or other means. How the cutoff point can be defined, and how the responsibility for determinations should be allocated among Congress, the Executive Branch, and independent agencies, such as the Tariff Commission, are extremely complex questions. I hope that this Committee can devote some attention to this point, and perhaps outline some alternatives. But here is considerable room for development in adjustment assistance before any such danger point is reached; so my point is merely that one must provide a theoretical upper limit.

One of the critical questions in the feasibility of such a program concerns the willingness of industry to disclose the "early warning" it often has as much as a year ahead of a probable plant closing. Some businessmen with whom I have spoken have indicated that they would be willing to give such notice as soon as the handwriting was clear on the wall, not only to the Government, but also to the workers affected; others are understandably more cautious, feeling that premature disclosure on a speculative basis could be harmful not only to the company but to the employees. But most seem to agree that if a method could be devised whereby projected changes in demand for skill categories could be reported, but with individual company reports being confidential and the skill categories aggregated by regional area, they would be willing and able to cooperate.

What about the forecasting of skill *needs*? This may depend upon investment and plant expansion plans, and here too a better system of industry reporting could be used; but over and above this, ways must be found to induce such expansion in labor surplus area. This is by no means a problem unique to the United States, and a recent UNCTAD survey [3] shows that many countries have programs for inducing location in depressed areas. This is too complex a subject to explore at length here; but the adequacy of the present dozen separate U.S. programs dealing with employment, business, or regional development would appear to merit the detailed scrutiny of this and other committees of Congress.

Finally, I would like to conclude by linking together the adjustment assistance and employment planning aspects with the balance of payments problem with

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[3] See U.N. Conference on Trade and Development, Third Session, Santiago, Chile, 13 April 1972, "Adjustment Assistance Measures," Report by the UNCTAD Secretariat TD/121/Supp. 1. Canada, Germany, Sweden and the United Kingdom are among the developed countries providing specific assistance and incentives for industrial expansion and job creation in designated development regions. The European Community itself has a Social Fund which provides refunds to member countries for assistance to workers—of whom about 1.3 million were aided during the 1960–1970 period. France provides specific grants for equipment costs involved in each new job created in labor surplus areas; Italy and Japan have both general and specific regional or sectoral assistance programs.

which I began this statement. As noted earlier, there is a $65 billion "overhang" of dollar liabilities abroad. This destabilizes the international monetary system, and produces both inflation and currency speculation. Moreover, this overhang has contributed to the severe weakening of the U.S. economic position in the world. Some of this liability can perhaps be absorbed through international agreements and institutions, for example by making the International Monetary Fund a bank of deposit.

Some of it can also surely be attracted into productive utilization in the United States economy both as portfolio and direct investment. Although the Commerce Department has an "Invest in the U.S.A." program, it seems inadequate to the new magnitude of the problem. This program, like those for adjustment assistance, needs overhaul and upgrading and central direction. We need to do as many other countries have done and have an aggressive national campaign—as opposed to purely state and regional efforts, which often merely confuse prospective investors—to attract investment from abroad. Consideration might also be given to establishing, in effect, an "ombudsman," an official in a high position in the Government whose job it would be to see that there was a ready channel of complaint and investigation involving alleged discrimination against foreign investment.

Based on our observations in our international economic work, we have found few, if any, actual instances of such discrimination. But the operative fact is that foreign investors are concerned at the possibility, often as a result of their unfamiliarity with the U.S. antitrust and other regulatory systems. An official whose job it was to monitor and help implement our policy of nondiscrimination and national treatment of investment could be a great asset in the campaign I am suggesting.

An even more significant step which could be taken would be to establish a "U.S. Public Development Corporation" chartered by Congress and empowered to issue long-maturing securities abroad with the credit of the U.S. Government at whatever interest rates and maintenance of value guarantees were necessary to attract this capital. These securities would mature at intervals to avoid the destabilizing effect of a one-shot repayment. The money would then be reloaned to local governments and public authorities in the United States at present tax-exempt rates, with the U.S. Treasury paying the difference. These funds would be used for urban development, transportation, environmental and school system improvement programs. They would both help to fill financing gaps [1] and create jobs. Priority in the relending of the funds could well be assigned to areas of greatest unemployment. The inflationary effects, while not negligible should not be unmanageable. The fiscal costs, even if the spread between interest paid and received was as much as two percentage points, would be $20 million per $1 billion borrowed; this plus the administrative costs, would appear an acceptable charge on the Treasury in view of the double purpose served.

In summary: The United States must both bring its current balance of payments under control and attract as much as possible of the cumulative "overhang" of short-term liquid dollar obligations abroad into productive utilization in the United States.

It must aggressively seek to expand its exports and improve the competitiveness of its industry, looking to true reciprocity in international trade. To do so, it must avoid both the protectionist and anti-foreign investment pitfalls while recognizing that there are costs in such a policy which cannot be allowed to fall mainly on the shoulders of labor and particular individuals. Adjustment assistance, redefined in purpose and reorganized in application, can help to share the burden of import-related employment dislocations equitably. If we undertook, in addition, expanded programs of tax and other incentives for industry to locate or expand in high unemployment areas—as many other industrial countries have done for years—we could overcome our current economic "time of troubles." But without such imaginative new approaches, I fear that the domestic pressures building against liberal trade and investment policies may, before long, lead us to adopt the self-defeating policies of a closed economy—with political and military isolation only a step behind. Adjustment assistance, then, is one important means to the end of improving the American economy's performance in the international system; and I believe that your Committee's exploratory work will prove most valuable in its future development.

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[1] State and local government expenditures quadrupled between 1950 and 1969; in 1969 they totaled $132 billion, while revenues were $113 billion, a gap of $19 billion.

APPENDIX 3

Statement by Lewis J. Kaufman on Trade Adjustment Assistance Programs Pursuant to H. Con. Res. 546

For several months last year, I was a Consultant to the Department of Commerce in connection with its responsibilities related to the Trade Adjustment Assistance Programs, and on August 12th was appointed Director of the Department's Office of Trade Adjustment Assistance, a position I held until November 19, 1971, when I resigned. Before joining the Department of Commerce, I was a general partner in the investment banking firm of Goldman Sachs & Co., with whom I was associated for seventeen years.

This statement is submitted because I believe a program of adjustment assistance can be an effective alternative to trade restrictive legislation. The subcommittee's hearings are important because it is clear that a credible program is essential to counter the inevitable and understandable complaints from those who would prefer not to adjust or are unable to adjust to changes which occur from an active competitive international marketplace.

The subject of international trade is extremely complex with many interrelated facets, e.g., foreign exchange rates, non-tarriff barriers, and multinational corporations, to name just a few. The matter of trade adjustment assistance is also complex since it is a relatively new concept. I have referred to the complexity of the problem, not because it is to be approached with trepidation, but rather to observe that because of its complexity, objective investigation and analysis of it often becomes clouded by rhetoric and superficiality.

Because of the importance of this subject, I hope the hearings will produce what Chairman Culver, in his opening remarks, referred to as information ". . . designed to lay a foundation for better Congressional understanding of the problems and opportunities in the field as they relate both to domestic economic posture and—of particular concern to the subcommittee—to an overall foreign economic policy."[1]

At the outset, I would like to submit the contents of a letter to the Editor of the Wall Street Journal which appeared on the editorial page of that newspaper on December 30, 1971. It was written in response to an article entitled "Promises, Promises, Promises" which was one reporter's efforts on the subject of trade adjustment assistance.

The Editor,
Wall Street Journal,
New York, N.Y.

Dear Sir: John Pierson's article of December 8 in which I am quoted describes the Estey Piano Company's efforts to obtain financial assistance from the Government. The article conveys the impression that such aid is being denied because of bureaucratic mishandling. Moreover the article suggests that the forces of protectionism are being helped by the denial of such aid. Neither of those impressions is accurate.

With the benefit of hindsight, it is clear that the processing of the Estey case at the Department of Commerce could have been handled more efficiently. However, the Trade Adjustment Assistance Program for firms as authorized under the Trade Expansion Act of 1962 introduced a new untested concept in government-business interrelationships and therefore the program managers were operating in unchartered waters. Moreover, as a matter of equity, the concept of the government providing assistance to some firms in any particular industry and not to other directly competitive firms in the same industry requires, at a minimum,

[1] Hearings on Trade Adjustment Assistance before the House Foreign Affairs Subcommittee on Foreign Economic Policy, Opening remarks by Chairman Culver, April 24, 1972.

that criteria and standards be precise and administered in a professional, nonpolitical manner.

Insofar as the Estey case is concerned, the article suggests that SBA merely preferred to have Commerce "risk" its own money rather than SBA funds. Actually after a thorough investigation of financial and other factors, both agencies determined that lending of funds to Estey by either agency would have been patently unsound and might, in fact, have been illegal. True, better management of the program should have made some of those facts known to Secretary Stans prior to his approval of the proposal. Nevertheless, in spite of the embarrassment, both agencies properly determined not to proceed once those facts became known. Certainly this aspect of the case should have been included in Mr. Pierson's article.

I cannot agree with Mr. Pierson's suggestion that failure to date to provide funds to a handful of firms, almost all of which have problems other than imports, will "swell pressure for protectionist moves". To the contrary, adjustment assistance carries the risk of evolving into a welfare program for firms. Therefore, if it is to emerge as a viable tool supportive of a free trade program, it is essential that it be managed soundly and professionally. To do otherwise would only play directly into the hands of those who will be satisfied with nothing less than outright protectionism.

Very truly yours,

LEWIS J. KAUFMAN.

In view of the feelings expressed in that letter, I was particularly dismayed to read in the Congressional Record that Chairman Culver submitted that same article as *the source* of information ". . . . . which *documents* the failure of this program." (Italics added.)[2]

No doubt, the program has "failed" to do what some wanted and perhaps expected it to do. As the Committee examines the concept and workings of trade adjustment assistance, however, it should be attentive to the background and Congressional *intent* of the trade adjustment assistance provisions of the '62 statute. What are now described as "failings" of the management of the program, are probably attributable to statutory constraints. As the Committee knows, as far back as 1969, several changes in trade adjustment assistance statutory provisions had been recommended. As pointed out by Professor Metzger, those changes were at first focused on eligibility requirements, but by 1971, had also incorporated recommendations for liberalized benefits. In testimony to your Committee, Professor Metzger observed that the liberalized eligibility requirements, as well as the expanded benefits are ". . . . . not really controversial" but rather ". . . . . are not law today because they got caught up with the other features of the bill which deemed to be highly protectionist and thus very controversial."[3] Professor Metzger may be correct—but I would call the Committee's attention to the fact that the proposed liberalization of eligibility requirements (in particular elimination of the requirement that increasing imports be related to—or "caused" by—a tariff concession) were proposed *before* there was a single experience with providing benefits. Since then, some experience has been gained with the "delivery" of authorized benefits. Therefore, the question of eligibility and the matter of benefits should be reconsidered in the light of that experience. Liberalizing eligibility carries with it a responsibility to examine even more closely the benefits which thereby become more readily available.

My involvement with the program was relatively brief, but it was an intensive and concentrated focus on the subject. In that time, substantial progress was made in developing a viable program—within the stricture of the present statute, and we were able to identify some of the problems and opportunities for the program as well as formulate some ideas which should be considered in contemplating new initiatives.

These comments are directed particularly at the "firm" as opposed to the "worker" aspect of the subject. Although a prime reason to assist firms is that those firms will employ workers, the debate on trade adjustment assistance is often clouded and confused because there is a tendency to view the subject of adjustment assistance to workers and firms as two sides of the same coin. I be-

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[2] Ibid.

[3] Remarks by Stanley G. Metzger, Subcommittee on Foreign Economic Policy of the House of Representatives Foreign Affairs Committee April 24, 1972.

lieve there is a basic difference between the worker and firm aspect and believe a more meaningful debate will occur if they are treated as two distinct subjects.

One of the fundamental arguments offered in support of the concept of trade adjustment assistance is that the government has a responsibility to provide special assistance to those segments of the economy adversely affected by government actions (e.g., tariff reduction) taken on behalf of the total society. Without going into the history of the debate on the concept of a trade adjustment assistance program, I would merely observe that even this fundamental argument cited in its support may have more validity and, therefore, warrant different attitudes when considering worker aspect as opposed to the firm or industry aspect. The body politic has accepted the concept that it (the government) has a responsibility for unemployed individuals—e.g., The Unemployment Act of 1946—but Congress has moved cautiously in establishing government programs which provide funds to be made available to private business entities. Congress has in the past, and should continue in the future, to recognize the inherent risks and practical limitations of a program administered by the bureaucracy which, of necessity, requires a great deal of subjective decision making. The adjustment assistance program for firms as presently authorized, requires a great deal of such subjective decision making. Liberalizing eligibility requirements would, therefore, expand the bureaucracy's role in that direction.

It would be convenient to "put aside" the question of the relative roles of the government vs. the private sector as outside the scope of the hearings and to focus merely on the technical aspects of adjustment assistance. Unfortunately, I don't believe such a convenient separation is practical since by definition, a government program to assist firms or industries—even if limited to those affected by international trade flows—introduces the matter of the government's role in the private sector. That the motivation is related to international economic and political considerations does not alter the fact that the impact of such involvement has important and far-reaching domestic implications even though the objective might have been to limit government involvement to situations precipitated by foreign economic factors. In the "real" world, it is virtually impossible to separate and identify accurately the relative influence of those foreign factors from domestic factors.[4] Refinement of the determination process, for example, by distinguishing between imports as a "substantial" or "primary" rather than the "major" cause of injury, does little to overcome the problem.

In addition to the basic difference between the concept and the application of adjustment assistance for workers as distinguished from firms and industries, a further important distinction should be noted, namely, that assisting a "firm" is very different than assisting an industry. A government effort to assist a particular "firm" in an industry as opposed to assisting the entire industry, injects the government into the competitive equation of that industry. This is a very important distinction because, as the decision is made to assist any one firm, such assistance might adversely affect another firm. Also, unless all firms are assisted, those assisted may gain an advantage over those not assisted. Obviously a matter of equity is involved. For instance, suppose one piano firm is assisted by the government, thereby enabling it to gain an advantage over its competitors. Suppose further that one of the "unassisted" firms was thereby hurt by the competition from the assisted firm to such an extent that it could not survive. True, it could also be "assisted." But, each and every piano company can't be assisted. The literature on adjustment assistance, past or present, does not discuss this important distinction between assistance to firms as opposed to assistance to industries.

The Trade Expansion Act of 1962 does not authorize adjustment assistance for an "industry." Firms "within" an industry may be authorized to apply for adjustment assistance, but quotas, tariff relief, etc., (i.e., trade restrictive action) is the only recourse now available to aid an entire industry. I believe the Committee should consider the desirability of some forms of assistance to entire industries, thereby providing another laternative to trade restrictive action. An industry approach, however, is not without problems.

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[4] Was the "injury" suffered by the piano industry caused by imports of competing pianos or by the declining popularity of piano playing relative to guitar playing? Clearly, the answer is not a simple one. The impact of imports on the "industry" was not uniform. Some firms were hurt before others. Segregating the impact of imports from domestic competitive factors for any one firm within an industry involves an ever greater degree of subjective decisionmaking.

First, developing an acceptable definition for an "industry" is difficult. The Tariff Commission struggles with this problem in all of its escape clause hearings. However, depending on the type of benefits to be provided, it may be easier to construct a practical guide to industry classification for purposes of providing "assistance" which is only domestically focused, whereas the Tariff Commission has the problem of identifying specific TSUS classifications. But if a research grant is under consideration for an "industry," a less rigid definition would seem to be appropriate. Second, even within an identified industry, there is often very little homogeneity. As a result, opinions as to (a) the nature of the problem affecting the industry, (b) the cause of the problem, and (c) the prescription for the "cure" of the problem, will vary widely. Third, with exception of "regulated" industries, organized expertise capable of sophisticated analysis of the factors at work in any industry is not always readily available in government. Therefore, any attempt to create a government vehicle for an industrywide approach to a program of assistance will need some high level forum for debate so that all points of view may be given a proper hearing, not just the point of view of that segment of the industry which wants particular government action.

The Trade Expansion Act of 1962 anticipated this problem (i.e., the lack of government expertise) by authorizing "industry advisory committees" with representation of industry, labor, and the public to advise the Adjustment Assistance to firms and workers. This Board has met only twice, however, and no industry advisory committees have ever been called. If forms of adjustment assistance were to be authorized for industries, a new and expanded role for an entity similar to the Adjustment Assistance Advisory Board would be logical. Also, if it were sufficiently visible and structured properly, it could serve as the vehicle for an airing of all points of view—inside and outside the industry. Obtaining "minority" views is important because, even when an industry is unanimous in its opinion as to the nature of its problems or the form of government assistance it needs, it is often wrong in its analysis of the problem and, therefore, of the recommended solution. Furthermore, it may not adequately reflect the public interest point of view. This observation is made merely to alert the Committee to the risk of establishing a vehicle for self-serving industry influence on government decision making should it move toward considering the potential benefits of an industry approach.

Professor Metzger contends that " . . . government is readier to recognize its obligations to provide for the general welfare by easing the path to economic health and well-being of those who are thrown out of work or enterprise by impersonal forces . . ."[5] (Again, note the lack of distinction in that statement between the government's obligation to workers as distinct from firms or industries.) True, passage of the Emergency Loan Guarantee Act of 1971 would seem to support the Professor's contention, but it should be remembered, that bill was enacted by a narrow margin. Moreover, in my opinion, the debate over the bill did not adequately consider the ramifications and implications of a deeper involvement of government in the "Business Sector." I believe, therefore, Congress properly limited the scope of that legislation.

Some observers believe that it may be desirable to have an expanded role for government in the business sector. Such an expanded role carries with it the risk that the resource allocation process could become less efficient rather than more efficient. Although the "private marketplace" often misallocates resources, the evidence is inconclusive that government planning has established a long-term record of resource allocation better than the marketplace. Therefore, an adjustment assistance program focused on an industrywide approach should be designed with a view toward a minimum interference with market forces.

The Williams Committee recommended that a new Office of Trade Adjustment Assistance be established. I do not believe a new agency is necessary but rather that new responsibilities and greater stature be accorded the present Trade Adjustment Assistance effort at the Department of Commerce. Clearly the nature of the work which is presently authorized, or which might become authorized, falls within the general responsibility of the Department of Commerce. To date, however, budgetary and statutory constraints have hampered the Department in developing a more responsive and effective program. Nevertheless, I believe the framework for a meaningful program is gradually being created.

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[5] Op cit.

An expanded adjustment assistance role for a government agency need not, and should not, interfere with the "market" decision making process. Yet it must be sufficiently meaningful to provide a reasonable alternative to trade restrictive action which would otherwise occur. A major program of technical assistance to accelerate research and development—particularly if designed to accelerate technological advance and productivity improvements—would seem to be of benefit independent of their impact on trade adjustment assistance. If such efforts could also be identified as being motivated by and of benefit to the country's relative to trade position, a "new" approach to the problem of developing a government role in the "adjustment" process should emerge. Hopefully, a broader approach to the worker problem than that now authorized will also emerge since, clearly, unless labor feels that it, too, is being assisted in the adjustment process, its support for a free trade program will be a thing of the past.

Obviously these brief observations are not submitted as an all encompassing commentary on the subject of adjustment assistance. Rather, they are offered with a view towards identifying a few aspects which might otherwise not be adequately considered.

I would now like to respond briefly to the questions posed in the Chairman's opening remarks and also to comment on some other aspects of the subject.

(1) When and on what terms can adjustment assistance operate as a substitute for trade wars and restrictions with competitor nations?

I believe a viable adjustment assistance program can be designed which will serve as a tool, supportive of a free trade program. The Trade Expansion Act of 1962 points in the right direction and as we gain experience with this new concept, through it we will find ever-increasing opportunities to serve our society. The fact that it seemed so unresponsive for so many years should not now be taken as the excuse to dismiss its potential to be a major force in contributing to our economic progress. On the contrary, we now have some very valuable experience which identifies some of the problems and pitfalls. It would be a sad development to revert to trade restrictive policies at the very time we are learning how to use this new tool which continues to offer such great promise.

(2) How do our programs compare with those in effect in other advanced economies, and should we seek to internationalize the adjustment process in some way, perhaps by moving towards agreement on desirable minimum goals?

Comparative studies have been made and are continually being made with programs in other countries. Occasionally, the experience of other countries is interesting and informative (such as the British experience in designing programs to assist its textile and shipbuilding industries where it appears that serious mistakes were made and, according to some observers, were attributable to the fact that the action taken by the government was basically action recommended by the respective industries, without adequate consideration of outside points of view—points of view which would undoubtedly have been less parochial). However, by and large, in my opinion, the United States can and should design its own form of adjustment assistance which meets the needs of our own unique society. Insofar as moving towards an "internationalization of the adjustment process," I would not be optimistic about any near term prospect of success in that direction because of the complexity of the problems and our own lack of confidence in the efficacy of the effort stemming from the relatively modest amount of experience with the concept. However, an open dialogue on the subject, with a clear-cut commitment to seek solutions to dislocations stemming from international trade flows via an inward-looking adjustment process, would be beneficial to all.

(3) Is there adequate opportunity in our own economy for relocation of import-sensitive labor and capital into more productive endeavors?

Yes! Provided we adhere to economic policies designed to foster an expanding economy.

(4) Can adjustment assistance be made to operate effectively in relation to trade-related injury alone, or must such a program be designed as part of an overall domestic conversion policy that remedies industrial dislocations regardless of cause?

I am reluctant to endorse the concept that an adjustment assistance program for workers or firms and industries be viewed as part of an "overall conversion policy" since the words connote some grand scheme designed by a government planning agency. Nevertheless, as implied in my remarks, it is difficult to isolate dislocation stemming from imports (or the lack of export opportunities) and,

therefore, assistance programs will have to be designed with a much wider horizon than just foreign trade flows. For example, if the shoe industry could be assisted through some government sponsored research program, certainly the benefits would accrue to the total economy by improving shoe productivity. The fact that the impetus for such a program was an attempt to be responsive to the dislocation caused by imports does not limit the potential benefits merely to competing more effectively with imports. Increased efficiency in the production of shoes should have broader benefits to our economy as does more efficient production of any product or service.

(5) What is the proper relationship between adjustment assistance for industrial firms, workers, and communities on the one hand, and temporary import relief for entire industries on the other?

It is difficult to establish a categorical answer to this question because each situation may have to be judged on its own merits. There may be, however, an opportunity to combine and coordinate adjustment assistance programs with temporary import relief. But it will take resolve or it may even require statutory direction to assure that what is termed "temporary" does not turn into "permanent."

In conclusion, I would like to quote from an editorial which appeared in the Wall Street Journal on January 7, 1972: ". . . Designing such a program (adjustment assistance) isn't easy since it could easily degenerate into a massive welfare set-up for businesses, some of which would be suffering more from inadequate management than from excesive import competition. The obstacles thus are enormous but the potential rewards are even greater. Among them are increased vigor for American industry, friendlier cooperation among the world's nations, and help for the poorer countries that would be especially hard hit by trade war among the industrial nations. . . ."

APPENDIX 4

Letter Sent by Dr. C. Fred Bergsten to Hon. John C. Culver on the Cost of Adjustment Assistance

The Brookings Institution,
Washington, D.C., June 5, 1972.

Hon. John C. Culver,
Chairman, House Foreign Affairs Committee,
Rayburn Building, Washington, D.C.

Dear Mr. Chairman: In view of the direct references by Mr. Fraser of the UAW to my earlier testimony before your subcommittee on trade adjustment assistance, I thought it might be appropriate for me to send you a few brief comments in response.

First, I greatly welcome Mr. Fraser's amendments to my estimates of the costs of a viable adjustment program. My major objective was to begin a rational debate on the costs and benefits to the United States of such a program, and Mr. Fraser's testimony makes a major contribution to that goal.

Second, I fully accept Mr. Fraser's modification of my own cost calculations. He is in a far better position than I to make estimates of the needs of workers displaced by import competition.

Finally, I am most gratified that Mr. Fraser and I share the same policy conclusion: that the benefits of avoiding additional import restrictions far outweigh the costs of a meaningful adjustment assistance program. I tried to demonstrate that this conclusion holds even under the most generous possible estimates for adjustment assistance, and am pleased to learn that the costs would in all probability be much less in actual practice.

Sincerely,

C. Fred Bergsten, *Senior Fellow.*

APPENDIX 5

Report on the Japan Trip by League of Women Voters of the United States

Purpose of the Trip

We can look at the League trip to Japan from two different perspectives, that of the Japanese Government and that of the League.

The Japanese initiated and assumed all expenses for the project as part of a public relations venture to facilitate better understanding between U.S. and Japanese individuals and groups in the private sector, presumably to repair some of the damage wrought over the past year by the failure of communication between the two governments. In undertaking the venture, the Japanese Government did not pin its hopes exclusively on the League: a similar tour had been arranged in January for Senate staff aides concerned with trade policy and another was scheduled for AFL/CIO representatives in March. In the next fiscal year, which in Japan begins April 1, these initial ventures will be superseded by a longer-range exchange effort known as the Japan Plan, modeled in part on the Fulbright Program and designed especially to encourage U.S. students to study in Japanese Universities.

We cannot speak for the Japanese in appraising the value of the trip. The League accepted the Japanese invitation not as a public relations gesture, not only from the desire to promote better understanding, but out of concern for the future of U.S. trade policy and specifically for the future of U.S.-Japan trade relationships. Convinced that the continuing effectiveness of the League's trade position will require a clear understanding of the political and economic realities that underlie trade policy decisions, League representatives sought, as Mrs. Benson explained, "to explore Japanese foreign economic policies and their determinants, and to see at first hand how Japanese economic organization and practice, at home and abroad, differ from our own." Given the dramatic shifts in economic and political relationships among nations over the past year, the trip came at an especially opportune time. From the League's point of view, it proved a resounding success.

Substance of the Trip

Itinerary for the trip was arranged by the Overseas Public Relations Division of the Public Information Bureau, Ministry of Foreign Affairs, following preliminary discussions in Washington between League staff members, Japanese Embassy officials and representatives of the public relations firm retained by the Japanese Government to take charge of travel and other details of the visit.

In a real sense the trip began before departure from Washington on Feb. 4. It was preceded by several weeks' hard reading of selected materials on Japan's economic structure and trade policies, and two days of briefings in Washington. League representatives met on Wednesday, Feb. 2, at the Brookings Institution to hear Philip Trezise and Morton Halperin discuss economic and political life in Japan, and later heard the Director of the Sino-Soviet Institute at George Washington University, Franz Michael, discuss the political climate in Japan. The morning of Feb. 3 was given over entirely to briefings at the State Department, which included, in addition to the Department's Japan Country Director and Desk Officer, representatives of the Treasury, Commerce and Agriculture Department, and dealt with both the significance of the "Nixon Shocks"—the announcement of the China visit, the New Economic Policy and the textile agreement—and the problems of buying from, selling to and investing in Japanese markets.

In all, the League representatives spent thirteen days in Japan, departing on Feb. 4 and, Mrs. Benson excepted, returning on Feb. 18. Apart from the long

holiday week-end that punctuated the trip, when the group went to Hiroshima for a day and then on to Kyoto, the old imperial capital, for three, all of the time was spent in Tokyo, Tokyo time was virtually all business; the long week-end of tourism, designed for relaxation, proved to be as demanding as work.

In Tokyo the working day followed a basic routine: a morning meeting at 10:00 or 10:30, a luncheon, an afternoon meeting at 2:30 or 3:00 and another activity later in the afternoon, perhaps a call on the American Ambassador or a visit to the theatre. Occasionally the day began with a working breakfast. The group met informally after dinner to discuss the day's events and to prepare for the next day's meetings. Whatever the delights, and there were a number of them, it was unquestionably a working trip.

The League's range of contacts was impressive. We met Government spokesmen, primarily from the Ministry of International Trade and Industry and Foreign Affairs, but also from the Agency for Small and Medium-Size Enterprise and the Fair Trade Commission. (We met no one from the Finance Ministry, which in view of the intricate pattern of government-banking-industry relationships, appears in retrospect as a regrettable omission). And we spent twenty very pleasant minutes with Foreign Minister Takeo Fukuda.

In the private sector, we had meetings with representatives of the Keidanren, (Federation of Economic Organizations) which bears a superficial resemblance to the Chamber of Commerce or the NAM but is in fact much more influential as a spokesman for business on policy matters; and representatives of Domei (Japan Confederation of Labor Unions), the most important labor organization in the private sector; and with the president of the independent Japan Economic Research Council. Early in the trip we enjoyed an All-America Day: morning and afternoon briefings by political, economic and commercial officers at the U.S. Embassy, lunch sponsored by the U.S. Chamber of Commerce at the American Club.

We saw representatives of three of the country's four major political parties, the ruling Liberal Democratic Party and the perennial oppositon Socialist and Democratic Socialist parties; the spokesman for the LDP on foreign policy, Mr. Kiichi Aichi, preceded Mr. Fukuda as Foreign Minister.

On several occasions we talked informally with U.S. journalists working in Japan. The League of Women Voters of Japan offered a lunch, which several members of the group were able to attend. And a meeting was arranged with the Japan Housewives Association, in part because Mrs. Benson had expressed the desire to meet with representatives of an equal rights group and the Japanese had been hard put to find one in their own country, and in part out of the common misapprehension that all women's groups are necessarily concerned with consumer issues. Whatever its rationale, the meeting received unusual press coverage. The strength of the consumer movement is problematical, but it attracts significant attention in Japan.

Observations

Reluctant either as a group or as individuals to offer conclusions concerning the future of U.S.-Japan relations on the basis of the trip, we would prefer to pass on observations and elaborate on them by mentioning some of the problems or potential problems that the U.S. will face in attempting to strengthen relations with Japan.

1. *Politics and economics are not easily separated*

The trip served to remind us of something we know all too well at home.

In the course of Washington briefings and again in Japan we heard a good deal about the Nixon Shocks, and our initial instinct was to wonder which of the three—China, NEP or the textile agreement—hurt most. We soon realized, however, that speculation of this sort was misleading. What hurt was the three together, seeming to undermine the network of economic and political relations with the U.S. on which Japan has based not only its foreign policy but many of its domestic calculations, and on which the ruling Liberal Democratic Party has staked its success.

Japan has not cast loose from its American alliance. When Mrs. Benson, alluding to China and trade, expressed the hope that the U.S. and Japan would be able to work out their problems in a broad framework of international cooperation, Mr. Fukuda listened sympathetically and then took care to emphasize that the U.S. partnership remained of primary importance to Japan. This sentiment,

predictable enough in LDP, was also reiterated by leaders of the DSP and, rather surprisingly, of the more militant Socialist Party, one of whom remarked, "our meeting could not have taken place three years ago."

The China issue poses special problems for Japan, and especially for the LDP. Japan's volume of trade with the mainland and Taiwan is roughly equal, despite the fact that she has no diplomatic relations with the PRC. Public opinion in Japan, the business community included, has long favored better relations with the PRC. The effect of the Nixon initiative was not to outrage Japanese public opinion but to embarrass the LDP, which has held firm to what was thought to be the the American line.

It seems that Japan neither wishes to give up the special relationship with the U.S. nor depend so heavily on it that she finds herself at the mercy of American caprice; the Government seeks not to supplant the alliance but to complement it with others. Here as elsewhere the Japanese appear to exercise their extraordinary ability to examine all possibilities with equanimity—and the possibilities are numerous. Will Japan seek the rapprochement with the USSR that the Soviets now show signs of desiring? Will Japan seize the initiative in normalizing relations with the PRC which public opinion has long desired? Will Japan seek to carve out a sphere of influence in Southeast Asia? To what extent will Japan's future alliances be determined by the desire to secure the one benefit the U.S. cannot confer, a sufficient and dependable supply of oil?

There are two compelling reasons why Japan needs the U.S. alliance. The first, which we did not discuss in detail, involves security; the second is economic. Trade works best among equal partners. In the short run Japan cannot sell in Southeast Asia or even China the volume of manufactures she now exports to the U.S. Domestic consumption and exports to the European Economic Community may increase, but they will not take up the slack caused by the loss of U.S. markets, for example, for automobiles or electronic equipment.

The Japanese are fully appreciative of the delicate relationships between politics and economics not only in international relations, but within national boundaries. There is no economic justification for the support program that makes Japanese rice more costly to the consumer than what U.S. producers could provide, but there is recognition of the political fact that rural areas enjoy disproportionate representation in the Diet.

The textile industry poses a similar problem. In the wake of quotas imposed last fall under the terms of a government-to-government agreement, following the industry's failure to propose "voluntary" quotas acceptable to the U.S., the Japanese Government undertook significant programs to enable the industry to survive and regroup. In fact the industry, like ours, tends to be labor-intensive, inefficient and increasingly vulnerable to competition from Korea, Taiwan and Hong Kong. (Japan recently became a net importer of cotton). Quotas hurt the Japanese industry, but the U.S. action is no more at the root of the Japanese textile problem than Japan is at the root of ours.

Sensitive to the political implications of economic problems at home, the Japanese are growing more sensitive to the political implications of domestic dislocations in the U.S. and appreciate the extent to which economic success in U.S. markets could prove their undoing. The Hartke/Burke bill seems to have been studied more astutely in Tokyo than in many circles in the U.S. There is considerable reference to orderly marketing procedures which, when undertaken by the exporting country, involve regulations of the flow of exports into designated markets. (When undertaken by the importing country, they involve a quota system with a growth factor). Unlike ours, a Japanese industry may receive permission to organize an export cartel, in order to keep its product from inundating a foreign market; the cartel, a formal legal device, permits firms to agree on shares of what becomes, by design a limited market to the industry as a whole. That other non-U.S. manufacturers may take up the slack does not particularly bother Japanese producers. They are more interested in maintaining a certain share of the market over the long run than in dominating it in the short run, perhaps to be barred from it altogether at some future date.

2. Social attitudes have special economic importance in Japan

Every society's social attitudes and assumptions are reflected in its economy, but the Japanese are of special interest to us because in many ways they are contrary to ours and yet they have contributed fundamentally to what the Peterson Report calls "The Japanese Economic Miracle."

The Japanese assume work is important, work hard, and like it. The six-day week remains standard. Until last year, annual increases in productivity of about 15% have consistently outstripped wage increases. Although in theory Japanese workers in large firms retire at 55, in fact most are immediately rehired on contract. There are a variety of reasons for this: demand for labor on the one hand, meagre retirement benefits and social welfare programs on the other; but in addition, the feeling that work is a normal and happy human condition. A spokesman at the Agency for Small and Medium Enterprise told us that the workers fare better in smaller firms because they are not required to retire at 55 but can continue to work—to the end of their lives.

Consensus, not competition, makes the economy go round. We rely on competition to goad economic growth: firm is pitted against firm, business against labor, government against business. Even the familiar phrase, "the marketplace of ideas," reveals how deep lie our 18th century assumptions about the beneficial effects of competition. In Japan, in numerous ways that we sought imperfectly to uncover and understand, the Government and industry cooperate: on the government side, through MITI and the Finance Ministry, for industry through the Keidanren. In the course of our trip we met only one lawyer. A Japanese trade mission on a similar visit to the U.S. would have met dozens, in government, in industry, in public interest groups, in labor.

Labor and business cooperate, too. Labor is organized in company unions: the welfare of the company is the guarantee of its workers' welfare. Nor can management afford to be cavalier in its treatment of workers, for labor is in short supply in Japan. The sense of identity is strengthened by the system of lifetime employment, which assures a worker at any level that he will probably spend the duration of his working life with a single firm, will never be fired or laid off, and will never consider seeking another employer. The system assures him that his wages will rise over time, regardless of the competence of his job performance and regardless of the nature of the job itself.

(The labor shortage means, of course, that Japan does not have an unemployment problem: when the Japanese refer to their current recession, they are speaking of a decline in production, not of a rise in unemployment. It is difficult for them to comprehend the nature of the U.S. unemployment problem. They admire the adjustment assistance provisions of the Trade Expansion Act and maintain that adjustment assistance ought to have proved more successful than it has. They say the error lay in establishing such stringent conditions for eligibility that the program never really took effect.)

There is a sense of common interest—national interest, in fact—that persists in Japan and does not exist, has never existed, in the U.S. The failure of the textile industry and the Japanese Government to agree on voluntary restraints in the "national interest" is the exception to all the rules on consensus, and the industry has taken the unprecedented step of bringing court action against the government. It must be for reasons of "national interest" that the much publicized system of preferential tariffs on manufactured products from developing countries, which Japan began to apply last summer, are accompanied by little-publicized quota restrictions. (When we asked about the success of the system, we were told that it was difficult to gauge because the quotas had been filled within two months of the time the system went into effect. Textiles, of course, make up the bulk of LDC manufactured exports to Japan.) It is in the "national interest" that a member of the Housewives Association will defend special treatment for agriculture and textiles, despite the adverse effects on consumer prices. It is the sense of "national interest" that causes businessmen to wonder aloud at the U.S. decision to abandon its lead in flight technology by scuttling the SST.

"But how can a young man get ahead?" asked a bemused member of our group. "There's no room for initiative." In our sense, of course, there isn't, and it is doubtful whether many Americans would find personal satisfaction in a work-life in which self-expression gives way at every point to service. The economic perspective, however, is different. We have always assumed initiative to be the mainspring of enterprise, yet the Japanese have achieved extraordinary enterprise without our kind of initiative.

3. There are specific and identifiable sources of friction in our trade relationships with Japan

Some of these have now been corrected—too late, unfortunately, to prevent the irritation of the last several years—and some of them will remain.

The first has been the sustained undervaluation of the yen in relation to the dollar. The December monetary agreement raised the value of the yen 16.88% relative to the dollar, thus making American goods cheaper and Japanese relatively more expensive. Whether the change will prove sufficient to make certain American products competitive with Japanese remains to be seen. It may not, although the prospect of further revaluation was one of the few subjects our hosts showed no inclination to discuss.

The second has been the reluctance of Japan to undertake the import liberalization measures consistent with the GATT. (Mute evidence of the delay is the almost total absence of foreign-made cars, VW's, Saabs, and Fiats as well as Fords, from Japanese streets. In two weeks, one member of the group saw five: 3 Mercedes, 1 Pontiac, and 1 VW). No matter how auspicious the monetary agreements, they mean nothing so long as markets remain closed. For the most part, argue the Japanese, quotas have been removed and only forty items of the 1,097 listed by the Brussels Nomenclature are still restricted; the number is scheduled to drop to 34 in April. Implementation of Kennedy Round tariff reductions was accelerated last year and the final round took effect not in January, 1972, as originally agreed, but in April, 1971. The Japanese have also initiated a number of unilateral reductions: this year tariffs on large passenger cars will drop to 8%, from a high of 35% before April, 1969, while taxes on other than tariffs are also being reduced if not eliminated; and the 40% currently imposed on color film will drop to 20% in a year's time.

American officials acknowledge the accelerated pace of liberalization and admit that few statutory barriers to imports remain. It remains to be seen how accessible Japanese markets really are. American observers in Tokyo tend to echo the sentiments expressed in the Williams Commission Report that, in view of the nature of government-business relationships and especially the elusive influence of the administrative guidance system, it is questionable "whether or not the full value of the liberalization moves is being received."

Apparent Japanese eagerness to increase imports from the U.S.; American skepticism of Japanese intent, nonetheless, there are compelling reasons why the Japanese should like to buy goods made in America. The most obvious is public relations. The Japanese buy the bulk of our soy bean crop and they are wild for California grapefruit, but their case would be stronger if they were buying more than agricultural commodities. They would also find in importing from the U.S. a graceful means of divesting themselves of dollar reserves.

There is a third reason. The Japanese have been under heavy pressure to relax restrictions on foreign investment and have gone part way, making it possible for foreign investors to set up joint ventures with Japanese firms in all but seven vital industries. (In the seven, approval is required in each case. In existing companies the 50% rule does not apply and a single foreign investor is limited to 7% of total shares, aggregate foreign ownership to a 25% maximum). In glancing at the picturesquely entitled "Comparative Data of Economy between U.S. and Japan," one notices references to tariff and quota reductions scheduled for 1972–1973 but no references to investment liberalization beyond the provisions of August, 1971. Government and industry spokesmen are perfectly candid about their unwillingness to allow majority interest to foreign investors, and it was suggested at least once that on the investment issue Japan may well part company with many of her erstwhile partners in the U.S. free trade alliance. The Japanese system of capital financing, which relies heavily on bank loans and only to the extent of about 20% on equity, would expose whole industries to foreign control, they say, and it is unthinkable—not in the national interest—to risk foreign control of important sectors of the economy. They argue that the Japanese economic structure is so exotic that no foreign company could hope to master it without the aid of a Japanese partner. And finally, they add, it is quixotic of the U.S., from the point of view of its own economic interests, to maintain a tax structure that actually encourages transfer of capital and technology abroad.

Import restrictions have been liberalized, restrictions on investment relaxed somewhat, the yen revalued. Even assuming these measures prove effective, several sources of friction may remain.

They are largely attitudinal. "Export or Die!" Britons were once admonished, and much the same spirit prevails in Japan, where accidents of geography require the importation of nearly 100% of the fuel essential to an industrial society. There is a second export pressure built into the Japanese system: the high fixed

costs of labor (which cannot be laid off) and debt servicing, which create pressure to maintain production at capacity so long as revenue covers marginal costs. A decline in domestic demand does not result in curtailment of production but in diversion of production to export markets.

The U.S. attitude, of course, is the opposite. We are endowed with enormous natural resources and one of the greatest natural markets in the world, and have not long had the habit of thinking in global rather than national trade terms. We are novices at export compared to the Japanese. It is difficult to say where Japanese export incentives end and export subsidies begin—the one permitted, the other forbidden under the GATT—and unfortunately we were not able to investigate this problem as we would have liked. But the Japanese have developed numerous techniques, notably the trading company, which they commend to our attention.

Unaccustomed to selling in Japanese markets, many American businessmen may be at a loss to exploit them. Ask a woolen manufacturer about the difficulties he encounters in attempting to sell in Japan and he replies, laughingly, that he doesn't know because it has never been worth trying. Ask a Tokyo-based representative of a major U.S. retailing concern whether he buys, sells or both in Japan and he snorts, "Are you kidding? Sell here?"

Finally, there is friction inherent in the cross-purposes of U.S. and Japanese business. U.S. management seeks to maximize return per share to its shareholders, and would be remiss in its obligations if it did not. In Japan, reliance in capital financing on bank loans in place of equity means that banks, not shareholders, deliver the final verdict, and the measure of success is not return per share, but percentage of the market. Japanese firms therefore may be willing and able to play a waiting game that American competition cannot sustain.

4. Japanese attitudes appear to be shifting to new concerns

We have mentioned the greater sensitivity to the political implications of Japan's economic success abroad. As the Japanese begin to treat foreign markets more warily, they also think harder about their own.

They have lots to think about. Consumer prices are surprisingly high, in part because of an archaic distribution system. The fuel problem is more acute today than ever. Social welfare programs in Japan, contrary to popular impression, are notoriously deficient.

And there is the infamous environment. "When they finally decide to clean up Tokyo, then they'll do it," remarked one American observer. "They just haven't made the decision yet." In the FY 73 budget there is an increase in funds earmarked for environmental problems, whether as a serious initiative or a token gesture no one seems sure. Consensus apparently has not yet been reached.

In the meantime, industrial areas around Tokyo and Osaka recall the gloomiest stretches of the New Jersey Turnpike. Expressways thrown up over Tokyo streets a decade ago are both unique in their ugliness and outdated. Flowers in every room, even in February, are beautiful, but the air outside is foul. Rush hour in Tokyo extends throughout twenty-four hours and traffic is worse than anything any of us had ever seen. It is curious to remark how the Japanese, who take infinite care of the aesthetic details of their private lives, seem utterly indifferent to the aesthetics of their public spaces.

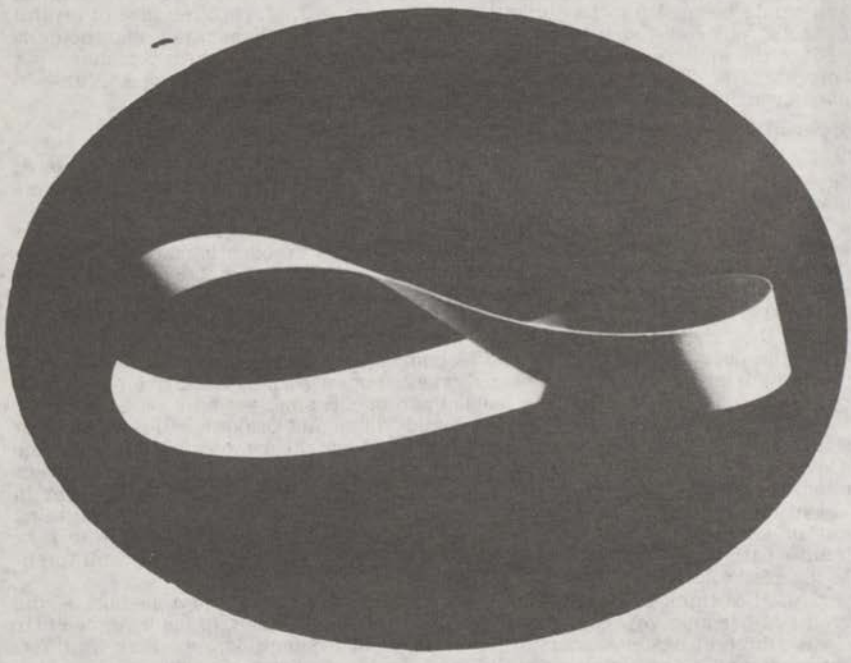
"I used to think trade was such a simple proposition," sighed a member of the group on her long voyage home. It is not, of course, as the trip made abundantly clear. Different systems, starting from different assumptions, working in different ways and often striving for different goals, are bound to come into conflict. The U.S. has a long way to go in improving our trade relations with Japan; but the problems, while complex, are identifiable and not insurmountable. In the long run liberal trade policies will hold up better if we seek solutions to the problems than if we pretend they do not exist.

APPENDIX 6

united states multinational enterprise

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TO: Participants in the Multinational Enterprise Survey

It is with great pleasure that we submit our report on the recent Multinational Enterprise Survey.

As you know, significant legislative interest has been attached to this topic since establishment of the National Chamber's Task Force on the Multinational Enterprise. Introduction of the highly restrictive "International Trade & Investment Act of 1972" (the Burke-Hartke Bill) in September, 1971 has been followed by piecemeal attacks on multinationals under the politically pleasing guise of "tax reform". The need for factual information has never been more urgent.

This report, developed over a six-month period with the assistance of 160 participating U. S. international companies, should play an important role in dispelling claims that activities of multinational enterprises overall result in decreasing U. S. employment and increasing U. S. imports. I sincerely hope you will relate its message and recommendations to your Senators and Congressmen so they may be better equipped to counter the argument that has been made for Burke-Hartke.

Finally, on behalf of the Task Force, I would like to take this opportunity to express our appreciation for the time and effort which went into the completion of our rather complex questionnaire. Results are presented in aggregate form in this report. Individual responses have been, and will continue to be, treated in confidence.

With warm appreciation.

Lee L. Morgan
Chairman
Multinational Enterprise Task Force
Chamber of Commerce of the U.S.A.

preface

The multinational enterprise is by no means a new phenomenon. Corporations with headquarters in one country and manufacturing, assembly, sales or service activities in another have been in existence for many decades. Until recent years, the most intense criticisms of multinational enterprises have come from host governments. Today, however, with increasing frequency and considerable emotion, various groups from within the United States have attacked the activities of multinational enterprises with the claim that MNEs "export" U. S. jobs, exploit "cheap labor" overseas and are largely responsible for the unfavorable U. S. balance of trade.

In an effort to develop a factual base from which constructive and well-substantiated analysis could be formed, the Chamber of Commerce of the United States established the Multinational Enterprise Task Force, comprised of corporate executives of international companies and members of the academic community. Under the chairmanship of Mr. Lee L. Morgan, President, Caterpillar Tractor Company, the Task Force distributed a comprehensive questionnaire dealing with the impact of U.S.-based multinational enterprises on domestic employment, international trade and investment.

In recent months, numerous government, education, and private institutions and agencies have studied the problem and distributed surveys with similar interests in analyzing the impact of the MNE on the domestic economy. At the time of printing, this Chamber report reflects the broadest based sample of manufacturing companies operating in the international area of any of the privately-sponsored surveys undertaken.

The current debate is an important one for the future of U. S. corporations, U. S. employment, the U. S. economy and international economic development. The findings of this report on the survey of multinational enterprises present a clear and unbiased picture of the U.S.-based multinational enterprise's major and positive contribution to increased U. S. employment and international trade.

Arch N. Booth, Executive Vice President
Chamber of Commerce of the United States

introduction

This Report is a response to attacks being made against U. S. international investment and its main agent, the multinational enterprise. It is intended (1) to demonstrate that specific demands, typified by those of organized labor for sweeping controls over American multinational firms, are without justification and (2) to help redress more general, but increasingly prevalent, attitudes contending that multinational business concepts are a negative factor in the world.

Early in 1971, before restrictions had been introduced in the Burke-Hartke Bill, business members of the National Chamber requested Chamber action to redress a growing criticism of the multinational enterprise. Sensing that such criticism reflected serious misconceptions of the foreign investment function, these members stressed the importance of developing accurate factual data for use in explaining the activities of these corporations.

Following the recommendations of business members and the Chamber's International Committee, the Chamber established a

Multinational Enterprise Task Force (MNE), with three immediate objectives: (1) To produce factual evidence on which to base arguments relating to specific legislative attacks that might be leveled against the MNE; (2) To formulate information that could be the basis of public pronouncements about the beneficial aspects of MNE operations; (3) To lay the ground for creating National Chamber policy and action toward the subject of MNEs:

The Chamber of Commerce of the United States occupies a unique position. As the leading business organization in this country, its contributions to the dialogue on multinational enterprises reflect concerns and beliefs of the entire range of the American business community. Its membership includes more than 40,000 business firms and individuals, over 1000 trade and professional associations, and 2600 local, state and regional Chambers of Commerce. In 31 foreign countries, the Chamber Federation is represented by American Chambers of Commerce Abroad. Therefore the position of the Chamber on international investment reflects the collective opinion of its broadly-based membership as it does on any other issue. Though the rationale for the Chamber's support of multinational enterprises is described first in the Report, the criticisms to which this study is directed are enumerated below, together with a summary of the Report's findings on these points.

Criticisms of the foreign investment activities of American multinationals fall into two main categories—those of a domestic nature and those in foreign countries. The foreign variety is usually associated with various forms of "economic nationalism" found most often in countries with a measurable degree of foreign control or ownership in their domestic resources and industries. At times this criticism is expressed in specific controls and limitations over the activities of foreign investment, or in the form of a threat to impose such controls. In any case, this area is beyond the scope of this particular Report.

One major focus of this Report is on the domestic criticism leveled by some elements of organized labor, which has been most vocal in its attack and most sweeping in its advocacy of change. But complementing the specific charges of labor are the attitudes of those who regard multinational business as a "negative" force. This group includes those who oppose multinationals because they connote "big business"—and in these eyes, anything linked with "bigness" must be bad. Surrounding this school

of thought is a conspiratorial view of business, a view that has been given new impetus as a result of recently scheduled hearings in the Senate Foreign Relations Committee.

Less extreme, but undoubtedly more numerous are critics holding that international investment is of secondary importance in the international economic system. The positive contribution to the United States balance of payments from U.S. investments is discounted, and inordinate attention is placed on building a trade surplus. This mercantilist philosophy discounts the investment balance, the largest contributor to the credit side of U.S. international payments. An example of this attitude in official U.S. policy is the "controls mentality" surrounding the foreign direct investment controls program.

Political necessities in the United States have spawned another set of critics—those advocating tax restrictions on foreign investment under the guise of "tax reform". These proponents stress the alleged "tax savings" to the U.S. economy while giving little import to the prospective damage that would accrue to America's competitive position.

Organized labor's interest in restricting U. S. international investment is of relatively recent origin and has been expressed clearly in the AFL-CIO Executive Council statement of May 12, 1971, on *The Critical Need for New International Trade and Investment Legislation*. Most of the proposals included in this statement were subsequently embodied in the Burke-Hartke Bill, while others have appeared in several other pieces of proposed legislation.

Three main charges that form the centerpiece of organized labor's attack against the U.S. multinational follow:

1. The AFL-CIO maintains that foreign direct investments result in the "export of jobs", i.e., the loss or decrease of U. S. employment.
2. It argues that American plants abroad generate increased U. S. imports while discouraging exports, thus weakening the U. S. trade balance.
3. Organized labor claims that a basic corporate rationale for operating abroad is to take advantage of cheap foreign labor and to ship the related production back to the U. S.-based parent company.

The findings of this Report toward the foregoing charges are

summarized below with more detailed explanations in the body of the Report.

1. The survey provides evidence that American multinational enterprises are increasing their domestic employment at a higher rate than the United States general manufacturing average.
2. Clear evidence is presented showing that the export performance of the general manufacturing multinational firms surveyed was far superior to the total national average.
3. The survey demonstrated that American multinational enterprises prefer to locate their operations abroad in the most highly developed foreign countries and that there is no concrete evidence showing that large-scale shipments from these foreign operations come back to the U. S.-based parent firm.

The results of the survey reinforce the view that the international investment function is one of the most important means of maximizing economic growth on a worldwide scale. The fact that a survey was used to demonstrate the credibility of international investment as a positive economic force reflects the considerable gaps that exist in knowledge of the subject. One of the most obvious gaps is the inability of the prevailing analytical techniques to cope with the reality of international investment. Conventional thinking in international economics is dominated by the classical concept of comparative advantage in which the product or trade flows between national economies are seen as the key factor in growth. This thinking assumes that factors of production (labor, technology, capital) are of secondary importance in contributing to the most efficient allocation of resources between the nations of the world. To some extent, this thinking accounts for the marked tendency for U. S. official trade policy to place priority on improving the trade balance as the key to international economic health.

In the shadow of two hundred years of conditioning to the effect that trade is the barometer of a country's relative economic efficiency, it is understandably difficult, particularly for national policy makers responsible for action, to admit that international flows (of men, money and ideas) are equally important standards of measurement—and that all these factors are intertwined. To affect one will eventually affect one or more of the others.

While this interdependence may not be reflected in current

U. S. international economic policy, with its emphasis on trade and on controlling the outflow of investment funds, it is somewhat paradoxically implicit in the labor position on multinational investment. Restrict further the ability of American firms to invest abroad, part of the fallacious argument goes, and domestic employment and associated export activity will inevitably increase.

Results of the Chamber's survey refute the cause and effect assumption in this contention, but its dominating position in current labor thinking reflects the fundamental concern of organized labor with current economic trends. This concern is understandable. Unemployment in the United States has run at unusually high levels over the past year and a half (though the number of jobs continues to increase). Throughout the high employment Fifties and Sixties, when a major portion of American direct investment abroad was taking place, labor leaders seldom raised their voices either in acknowledgement or protest. But as unemployment increased, so has the multinational enterprise been singled out as the guilty party.

The frustrations of labor have longer-term sources as well. Two economic trends of the past two decades have had an unsettling impact on the union movement. The first is the increasing importance of the service sectors of the American economy and a decline in the relative role of manufacturing. For organized labor as an institution this is a negative development because union membership has traditionally been weak in service activities and strong in manufacturing. Thus the AFL-CIO, the major force behind the push to restrict trade and investment, represents less than 20 percent of all U. S. workers. Excluding contract construction, service industry workers make up approximately 40 percent of the AFL-CIO membership—but about 70 percent of the total U.S. workforce.

The second trend concerns the rapid increase in employment of highly specialized technicians who remain outside union ranks. In the manufacturing sector, the high technology industries are relatively under-represented in the labor federation—and these are the industries with the greatest reliance upon exports and hence with a major interest in an open trade policy. Also, these are the industries in which most multinationals are involved.

Given the swing toward service employment in the American economy, it follows that organized labor would be sensitive to any erosion of the growth prospects of its membership base.

Right or wrong, if multinationals appear to be transferring U. S. manufacturing jobs abroad, it would make good sense for labor to prevent these transfers.

Reduced to its essentials, the labor position on international trade and investment is that the economic problems of the United States, particularly in the sense of unemployment and a declining trade balance, can be solved by protectionist policies. Conversely, by constructing a "garrison state economy" inefficiency would be entrenched and protected and critical international business decisions would be made by government and not the market place.

The main alternative approach, supported by the National Chamber, is along more positive lines. This is to stimulate growth of the total economy, while controlling inflation so that individual firms can improve their performance *vis-a-vis* imports as well as their efforts in export markets. An expanding economy will naturally generate employment opportunities, without undue fear of international rivalry. This is the approach followed by the Administration and given special emphasis in the New Economic Policy inaugurated August 15, 1971.

Undeniably, the shift from manufacturing to service employment has provoked concern beyond union circles. This wider concern is generally in response to the question "how long can we continue to take in one another's washing?" The question, of course, presupposes the trends toward services, if unchecked by new initiatives, will continue indefinitely. Projected to the extreme, the assumption is that we would all be taking in each other's washing and paying for it with the proceeds from foreign investment income which could be arbitrarily suspended at any time with calamitous consequences. The reality, of course, is that the change in the position of manufacturing has been relative, not absolute. United States production of manufactures has increased to about $350 billion a year, more than the combined gross national product of several leading industrial nations.

At the same time, there is a slowing down in the rate of increase of American investment abroad. Investment responds to a variety of motivations, as the report details, and these are continually changing. As many acknowledge, including organized labor, foreign direct investments as well as trade face a multitude of restrictions and controls in every country of the world. In the Communist world foreign investments are virtually prohibited. In much of the developing world, limitations on foreign invest-

ments are the rule. Accordingly, the concept of selected new curbs on American foreign investment activities, including the transfer of patents, does not appear unreasonable at first blush to many people. Moreover, the extent of the controls being proposed by organized labor, and their potential harm, is not readily apparent.

To conclude these introductory comments about the Chamber's report, any meaningful dialogue on the role of multinational investment must take note of the total economic and political climate in which the multinationals operate. Without perspective, the exception may be taken as the rule, the aberration as the normal, for without a sense of balance myth takes over from reality and emotion may prevail over common sense.

When reviewing the state of the world today, an outstanding feature of the post-war years has been the tremendous worldwide growth in material well-being. While the United States has led in this growth, it has been closely paced by many other nations, notably in Western Europe and Asia, where recovery from wartime devastation was the spur.

Undeniably, there are serious gaps between the levels of prosperity achieved by different nations—the gaps between the "rich and poor", the "haves and the have-nots". Nevertheless, while economic development is without a doubt the objective of all, its practicable attainment has only in recent years finally proved to be feasible.

Individual countries have adopted their own formulas for economic development and for utilizing technology according to their particular circumstances—their historical conditioning, social values, aspirations and political philosophies.

The multinational enterprise represents a leading edge of this development offensive. As former Secretary of Commerce Maurice Stans put it, the multinational enterprise "is a bold and imaginative—and necessary—response of U.S. business to the inexorable pressures of international commerce. While the growth of multinational investment should not be viewed uncritically, the effort that it represents to maintain our position in the international commercial community should not be subjected to criticism that fails to take account of today's realities".[1]

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[1] *Policy Aspects of Foreign Investment*, U. S. Department of Commerce, January, 1972.

recommendations

The National Chamber report concludes that the attacks on multinational enterprises are unjustified and misplaced. The survey has demonstrated clearly that U. S. international corporations have made a substantial contribution to the growth of American employment in the face of recession, and to export development in the face of general declining international competitiveness.

Nevertheless, the national economy is encountering real problems in high unemployment and persistent weakness in the trade balance. While union explanations for these problems are ill-founded and prescriptions for correcting them are regressive, the problems do require constructive solutions.

Following are five recommendations regarding these problems:

1. That a more realistic and flexible policy of adjustment assistance be provided to companies, groups of workers, and communities injured by competition from imports.
2. That the New Economic Policy of August 15, 1971 be permitted to perform its mission, especially the Job Development Tax Credit, which would be an important stimulus to private investment and the creation of employment opportunities.
3. That benefits of the 1971 international negotiations leading to currency realignments and recent legislative changes in export taxation and export financing be given time to strengthen the U. S. trade balance.
4. That both business and labor give serious support to forthcoming preparations for a new round of international trade negotiations now expected to be launched during 1973.
5. That greater attention be directed to the need for new or strengthened international mechanisms to resolve foreign investment disputes and to harmonize national foreign investment policies.

Adjustment Assistance

The Trade Expansion Act of 1962, which authorized U. S. par-

ticipation in the Kennedy Round negotiations, marked formal recognition for the first time that expanding international trade, or at least increased imports, could cause serious problems of adjustment and that some mechanism other than temporary import restraints would be needed to facilitate this transition.

The statutory adjustment assistance provisions, however, were slow to be used, partly because of very restrictive language in the original legislation, partly because of the Tariff Commission's interpretation of the law. From passage in 1962 until October 1969 not a single company or group of workers was found eligible to participate in the benefits originally intended. Since then a more liberal Tariff Commission approach has brought about some use of the adjustment program.

The need for an effective adjustment assistance program is now widely recognized. The tempo of change in international economic relations has accelerated to the point where import-challenged industries have a dramatically diminished period within which to adapt their operations. This is, in effect, another aspect of the longer-term process of internationalization. All sectors of the economy, however, benefit from the free flow of goods and capital. It is, therefore, inequitable that only a few sectors shoulder the main burden of adjustment. Public policy must, accordingly, provide effective means for easing these transitions.

Improvements in the existing adjustment assistance program are needed through both administrative and legislative action. The present system provides government support in the form of low-cost loans, technical assistance, and tax credits. However, eligibility now requires that a direct connection be proved between rising import levels that injure a company (or a group of workers) and a previous lowering of tariffs through international agreement. Removing this latter condition, widely assumed to be a reasonable change, will require legislative action.

Other modifications in the approach to adjustment assistance can be managed through administrative action. A better early warning system is needed, not only to detect trends in imports that are likely to cause market disruption, but in foreign exporting practices that are likely to result in deepening penetration of the American market. More analysis is also needed, possibly on an industry-by-industry basis, to design longer-term solutions for companies either to shift into other product lines in which U. S.

manufacturing is more competitive or to strengthen abilities to compete in existing activities. Maximum emphasis should be placed on self help and on linking these efforts closely with marketplace conditions. Acceleration in delivery of program benefits should also be undertaken.

Labor unions, whose support was essential to passage of the 1962 legislation, will have to lend their support again if this essential program is to be strengthened and made more effective. Labor organizations will have to accept the fact that adjustment assistance is likely to prompt some losses of membership, in some instances, as workers are retrained and enter new fields of activity. Short-sightedness toward that possibility could jeopardize the success of the entire effort.

Job Development

The greatest stimulus to economic development in the New Economic Policy of August 1971 is the Job Development Tax Credit. This helpful tax measure should contribute to resolving both the unemployment and foreign trade problems. On the employment side, the credit will encourage increased investment in plant and equipment, thereby stimulating creation of new jobs. On the trade side, industrial modernization will greatly improve the U. S. competitive position *vis-a-vis* other major exporting nations. Through a strong trade balance, employment will also expand.

By stimulating the replacement of less efficient industrial plant and equipment, the tax credit will enable the U. S. to compete successfully against the lower labor costs of other nations. Moreover, by helping to reduce unit costs of production, it will contribute to checking the inflationary pressures that have recently weakened the performance of American products in world markets as well as at home.

The growing importance of technology in international competition has become generally acknowledged. Serious attention is now being given to the inroads that Japan, West Germany and others have made into the American research and development lead. The investment credit, by helping to renew the U. S. technological position, will be generating exports in what promises to be the fastest-growing sector (on a dollar basis) of world trade during the Seventies and Eighties.

Currency Realignment and Reform

The far-reaching realignment of major national currencies

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successfully concluded in December 1971 will also enable the American economy to improve its international competitiveness. By making the prices of U. S. products less expenive in overseas markets, while making foreign products more costly in the U. S. domestic market, the trade balance should be propelled toward surplus.

It is widely recognized that the effects of this realignment are not likely to surface immediately, but toward the end of 1972 they should make a visible contribution to correcting the trade deficit.

Tax Benefits for Exports

Two major export-oriented statutes placed on the books during 1971 should begin to make an impact in the months ahead. One of these is the so-called DISC (Domestic International Sales Corporation) export tax deferral program. The other is the expansion and streamlining of Export-Import Bank operations.

The DISC program permits American companies to establish a new species of corporate exporting subsidiary that enjoys deferral on 50 percent of its annual taxable income. Moreover, by providing beneficial rules for the prices at which parent companies sell to their special export subsidiaries, the new program makes exporting additionally attractive.

DISC should have a constructive impact on the U. S. trade balance in several ways. First, it will encourage more companies to get into export, many for the first time, and provide an incentive for existing exporters to devote more of their resources to selling abroad. One government estimate is that DISC would generate an additional $1.5 billion a year in U.S.-based foreign sales. Second, the new program puts American exporters on a more equal footing with the kind of tax treatment their rivals enjoy in other countries. Most major trading nations have given special tax breaks to foreign sales that have at times put U. S. companies at a decided disadvantage. Third, DISC is expected to neutralize the effects of the American tax system on business decision-making in cases where the choice is a narrow cost calculation between manufacturing in the U.S. (and exporting) and manufacturing abroad. Exports should, therefore, be encouraged.

Export Finance

Over the next decade the role of financing in export operations is expected to gain increasing importance, as high-technology

products and major industrial and infrastructure installations become the major American sales abroad. Both the high prices of these items and the size of the export "package" involved will require extensive use of deferred payments. Intensified competition by leading exporters will put pressure on most companies to offer financial arrangements too.

Official recognition of this trend in 1971 led to expanded financing authority for the Export-Import Bank, and to several significant improvements in the agency's operations. Congress passed legislation raising the Eximbank obligational ceiling to $20 billion from the previous $13.5 billion, and specifically increased the Bank's authority to participate in guarantee and export credit insurance activities to $13.5 billion.

Bank utilization of this fresh authority should give American exporters a definite edge in many areas of export financing and at least equality in most others. Recent projections indicate anticipated growth from $5.4 billion in authorizations in fiscal 1971 to as much as $31.6 billion in fiscal 1976. Much of this expansion will occur in export credit insurance, in which the U. S. has until recently lagged behind other major exporting nations. But it will also represent expansion in such innovations as guarantees of export leasing, local cost financing of major projects and installations, and an aggressive program of cooperative lending in which Exim teams up with local financial institutions in most countries where American exports are sold.

Many of these new programs have already injected fresh life into U.S. exports. They should be given time to make what is sure to be a substantial impact and a definite edge in many areas for U. S. business.

Trade Negotiations

Proposals are being made by representatives of the major trading nations for a new round of international trade negotiations to begin possibly sometime in 1973.

These would be concerned with the many trade problems that have developed between the major trading countries of the world since the "Kennedy Round" of tariff negotiations which was concluded in mid-1967.

The important point is for American business and labor to begin now to plan their "input" into the official U. S. preparations for these talks. This round of negotiations will give American

export interests an opportunity to press for improved access to the major markets of the world. It will also provide a forum for considering some of the unfair competitive practices on the part of other governments.

These talks will provide the best forum for exchanging views and balancing off interests in international trade policies and practices. It is important that U. S. negotiators enter these discussions armed with the facts and with a flexible mandate to pursue the real needs of the American economy and the national interest. Recent union proposals for complete controls over imports and foreign investments would be a straightjacket for American negotiators and certainly doom prospects for a successful outcome.

Significantly, these international discussions will focus heavily (though not entirely) on non-tariff barriers to the flow of trade. While American practices will have to undergo scrutiny also, it is generally agreed by U. S. officials and businessmen alike that many practices of other countries have seriously retarded trade development and can only be modified or removed in a multilateral context. Farm product trade will receive considerably more attention that was the case in the "Kennedy Round" of trade negotiations, and this should help in an area in which the U. S. enjoys some comparative advantage.

Imports from the developing countries, a disproportionate volume of which is said to have come into the American market, will also get extensive consideration. It is expected that this international forum will be useful in spreading the responsibility more widely among advanced, industrial nations to absorb increased quantities of goods from countries now in the early stages of industrial development. This should enable the U. S. to live up to its obligations to assist these countries through trade, while diluting the pressures on the trade balance and on certain industrial sectors that have had problems of difficult adjustment.

The United States has been a major architect of these proposed trade negotiations as well as of forthcoming discussions aimed at reforming the international monetary system. Both of these efforts, like the shorter-term ones that were completed successfully in late 1971 and early 1972, can be expected to prove helpful in strengthening the American position in foreign trade and investment. They should be given energetic support.

Multinational Enterprises

In periods of fundamental transition, such as the current movement toward internationalization of national economies, it is not surprising that defensive reactions are unleashed. But it is just at these moments that objectivity is most called for. Labor union suspicions of multinational enterprises, the survey suggests, are unjustified, and the campaign to legislate crippling controls and tax disincentives is self-destructive.

Even their severest critics readily acknowledge that MNEs have demonstrated a remarkable ability to manage advanced technology and to administer complex organizations. The very international orientation of these companies, however, has generated opposition among those who would prefer to return to the past, when national economies were sheltered behind walls, and goods and capital moved less comfortably. Adjusting to the new international perspective has been made more difficult by unemployment. The new economic policies and the forthcoming trade and monetary negotiations should be given every opportunity to do their work in confidence. U. S. policymakers can help create that confidence through recognition of the contributions MNEs have been making toward growing domestic employment and a strong American trade position.

Multinational enterprises themselves, however, face a variety of problems that call for greater attention and assistance from government. One of these is the matter of investment disputes between a foreign company and a host country government. Another is the difficulty of adjusting to the great multiplicity of national laws and regulations, which can be an enormous challenge to MNEs.

Increased official attention has recently been directed toward dealing with foreign investment disputes. Moreover, the first case has now been registered for arbitration under the World Bank-sponsored International Center for the Settlement of Investment Disputes. It is hoped that, in the future, such agencies will be utilized more frequently when disputes arise. Both developing and developed countries should also be encouraged to participate fully in the proposed International Investment Insurance Agency now being considered by the World Bank, thereby multilateralizing investment risks while encouraging the vital flow of funds into capital-starved countries.

Harmonizing certain national business practices is an equally

long-term but highly necessary undertaking. As the President's Commission on International Trade and Investment pointed out,[1] every country has an important stake in ensuring the free flow of investment resources. Considerable work thus lies ahead in narrowing local differences in such practices as antitrust, transfer pricing, profit repatriation, securities disclosure, and taxation. Greater harmonization will help smooth the way for even greater efficiency in the performance of multinational enterprises. The Chamber considers it advisable to enlist the maximum participation of MNEs themselves in any steps toward harmonization. An international authority could provide oversight of these efforts. An existing international organization, such as the General Agreement on Tariffs and Trade or the Organization for Economic Cooperation and Development might conceivably be appropriate.

U.S. multinational enterprises have contributed substantially to the worldwide improvement of living standards, the rapid generation of employment opportunities, and the more effective use of advanced technology. By increasing the mobility of resources, they have strengthened economic efficiency throughout the world, thereby benefitting both the U.S. and host countries. In linking the peoples of the world more closely together, they have also helped build a foundation for international understanding and peace.

[1] "United States International Economic Policy in an Interdependent World", July, 1971.

findings in brief

There are three interrelated basic issues surrounding the MNE that form the basis of this Report. The summary findings on these issues are described below while more detailed facts are covered in a subsequent section and the original questionnaire is included in an Appendix.

employment

THE SURVEY PROVIDES POSITIVE EVIDENCE THAT AMERICAN MULTINATIONAL ENTERPRISES ARE INCREASING THEIR DOMESTIC EMPLOYMENT LEVELS AT A SIGNIFICANTLY HIGHER RATE THAN THE UNITED STATES' GENERAL MANUFACTURING AVERAGE. The experience of 121 firms that answered the employment question indicated an increase in domestic jobs from 2.5 million in 1960 to 3.3 million in 1970. This is a gain of 31.1 percent, significantly higher than the national percentage increase for that period. The 121 multinational firms tallied accounted for approximately 17 percent of U.S. general manufacturing employment in 1970.

The survey found that the operations of these U. S. international corporations led in strengthening of domestic employment, outpacing the economy which by 1970 had slid into recession and an unemployment rate of over 6 percent by year-end.

foreign trade

THE EXPORT PERFORMANCE OF 81 MULTINATIONAL FIRMS IN GENERAL MANUFACTURING ACTIVITIES WAS FAR SUPERIOR TO THE NATIONAL EXPERIENCE DURING 1960-1970. The shipments of these firms abroad from U. S. production facilities increased from $2 billion to $6.2 billion in that period, a gain of 209 percent, well above the national growth rate.

Unions contend that foreign operations replace U. S. manu-

facturing facilities and undermine export development, while boosting imports and weakening domestic employment. The 81 firms examined showed an export surplus of $5.14 billion in 1970. According to ratios established by the U. S. Department of Labor, this can be translated into 458,172 American jobs.[1]

location of investments

THE SURVEY DEMONSTRATED THAT AMERICAN MULTINATIONAL ENTERPRISES PREFER TO LOCATE THEIR OVERSEAS OPERATIONS IN THE ADVANCED, MORE HIGHLY INDUSTRIALIZED, HIGHER-WAGE COUNTRIES WHERE ECONOMIC CONDITIONS MOST CLOSELY RESEMBLE THOSE IN THE UNITED STATES. Data furnished by 160 companies indicate that, by far, the preferred locations are Western Europe and Canada, with Latin America in third place, followed by Asia-Australia and Africa.

If labor's contention that international firms prefer locating in low-wage areas were true, the results would have been quite the reverse of those actually tallied. But beyond mere location, the survey polled the member companies as to why they specifically established operations in each of these geographic areas. Here too the response provided clear refutation of union charges.

motives for going abroad

AMERICAN MULTINATIONAL ENTERPRISES LOCATE PLANTS IN FOREIGN COUNTRIES TO RETAIN FOREIGN MARKETS AND TO OVERCOME TRADE AND TARIFF BARRIERS. These 160 companies were asked to consider nine leading reasons for establishing operations in the various locations and to rank these reasons in order of preference from one to five.

In each of the five regions, the most popular reason for establishing a local operation was to permit "better servicing of an existing market", followed in all cases by the objective of overcoming tariff and trade barriers. Third most popular reason was the need to prevent a competitor from preempting a market.

Labor cost advantages, the explanation given by unions for multinational operations, were never at the top of the list, and

[1] *Monthly Labor Review*, June 1969, p. 16. According to the Department of Labor, this is the latest published criteria on export job creation.

only in the case of Asia were they given any prominence (third place). Moreover, Asian operations were regarded as far less preferable than those in Europe, Canada and Latin America (where labor costs were in sixth, sixth and fifth places, respectively).

The actual weighted tabulations of reasons for establishment in each region are listed under the section titled "Results in Detail".

The survey clearly documents that American multinational enterprises have not gone abroad to use low-cost labor and ship products back into the U. S. market. The overwhelming part of their foreign activities has been devoted primarily to serving local markets where operations are established, and to a lesser extent third-country markets. This confirms the findings of U. S. Government studies which have shown that plants abroad send back to the U. S. about 8 percent of their output. If Canadian automobiles are excluded, the figure is only about 4 percent.

The survey also indicated that, while U. S. operations abroad have enjoyed continuing expansion as part of the process of internationalization, these multinational enterprises have been guided by the necessities of retaining and building foreign markets, and not to escape American labor costs. While reasons have varied over the years (some multinational enterprises went abroad around the early 1900s, others in the 1920s and 1930s), leaping over tariff and trade walls has been a consistent motivation. So has the need to counter moves by foreign competitors. However, the need to better service local markets has been paramount.

The implication is clear: without overseas operations, U. S. multinational corporations would have lost much of their foreign markets to foreign competitors. They could not have maintained them through export alone. The survey documented that overseas business was not developed at the cost of American production, employment and exports. As noted, the employment levels, the export growth and the trade surplus of these firms outpaced the rest of the economy.

In short, the domestic activities of U. S. multinational enterprises have been among the most vigorous growth factors in the American economy. The critical charges of labor unions clearly are not justified.

survey results in detail

The Multinational Enterprise Task Force was guided by several elements in its selection of the 644 firms to whom it distributed its survey questionnaire. First, it was decided to poll members of the National Chamber to assure a willingness to cooperate in the effort. Second, it was decided to utilize the annual *Fortune* list of 1,000 leading industrial companies because, it was felt, this list would include most of the major American corporations with overseas operations. At the same time, the Task Force recognized that some companies on that list would not be multinational in character but still should be polled. Its reasoning was that information provided by firms that are large and yet not involved in operations abroad would help shed light on the motivation for going overseas or for not doing so.

A total of 280 companies responded to the Task Force questionnaire by the cutoff date, with 77 indicating no desire to participate and 43 reporting a complete lack of multinational operations. The list of 160 multinational companies whose responses were analyzed was pared further.

First, the extractive and automotive industries' figures were separated from the aggregates. The Task Force decided that companies in the extractive industry (including petroleum) had far different reasons for making investments abroad then other sectors of the economy. Extractive industries must operate where their raw materials are located and their foreign investments are usually limited to facilities engaged in acquiring and shipping these materials. It is therefore unrealistic to expect such corporations to restrict their investments to the United States or to refrain from importing the product of these operations into the U. S. Including this sector in the survey would have resulted in a distortion: it would reflect heavy foreign investment closely linked to substantial imports into the U. S. in a sector that has no alternative.

The automotive industry response was separated out because of the special effects of the 1964 automotive trade agreement with Canada. The U.S. motor vehicle trade balance with Canada,

largely because of that arrangement, has shifted from a $657.9 million surplus in 1965 to a $195.1 million deficit in 1970.[1] Extractive and automotive company responses, however, are used in a number of places throughout the report. Financial institutions, on the other hand, were excluded from the survey at the outset and warrant a separate study.

. The second reason for deleting some responses from the analysis was they were incomplete. The Task Force attempted to minimize this factor through the distribution of a supplementary letter clarifying certain questions and seeking additional replies.[2] Nonetheless, some incompleteness remained which required varying the size of the sample utilized in sections of the report. Nevertheless, responses used include companies in a broad range of manufacturing activities—chemicals, pharmaceuticals, food products, electronics, rubber, agricultural machinery, paper, plastics, various consumer products, machinery and aircraft.

Incomplete returns (those with at least one question partially unanswered) were utilized in determining trends in individual issues. Thus, all 160 multinational companies answered the questions dealing with business motives for investing abroad, while 121 firms replied to all the employment questions.

The firms responding to the Task Force questionnaire, it should be noted, represent a substantial part of U. S. multinational enterprises. Thus, 114 firms reported their 1970 worldwide sales —$104.0 billion—and 118 reported their 1970 sales outside the United States (excluding exports from the U.S.)—$48.2 billion. Ninety-nine firms reported on exports in 1970 amounting to $6.1 billion and 90 reported 1970 import levels of $1.0 billion. Worldwide employment of 112 companies in 1970 amounted to 3.7 million persons. The 160 multinational companies revealed operations located in from one to over 100 countries. About half (82) reported operations in one to ten countries and about three-quarters (124) reported operations in one to 20 countries.

The corporate profiles available through analysis of the replies indicate a substantial average operation. The firms responding to each of these questions in 1970 were operating in an average of 14.5 other countries and had average worldwide sales of $929

[1] "Fifth Annual Report of the President to the Congress on the Operation of the Automotive Products Trade Act of 1965". February 1, 1972.

[2] Copy included in the appendices.

million and overseas sales of $408.2 million. The average firm exported $68.9 million worth of goods and imported $12.8 million that year. Its worldwide employment amounted to 33,013 persons, with 22,362 of them in the U.S. and 10,186 in other countries.

the reasons for going abroad

The Task Force questionnaire sought to determine where multinational companies prefer to establish foreign operations and what specific reasons motivated them in each case. Both points address the labor union contention that MNEs basically attempt to exploit cheap labor costs abroad for the purpose of shipping back to the United States. The companies were also asked to indicate which kind of operation (manufacturing, import/export) they preferred in each area.

Geographic preferences in the responses confirmed the existing trends further documented in U.S. Department of Commerce studies. Responses from 160 multinational companies showed a strong preference for investing in Western Europe followed by Canada. Farther down the list was Latin America and much lower in corporate priorities was Asia (including Australia-Oceana) followed by Africa. Within regions, country preferences were sometimes provided. In Western Europe the most popular were the United Kingdom, West Germany, France, Italy and Belgium, in that order. In Latin America, the preference list was headed by Mexico, followed by Brazil, Venezuela, and Argentina. In Asia the leader was Australia, followed by Japan and Taiwan. These geographic choices for each respondent were weighted, giving five points to first place, four to second, three to third, two to fourth, and one to fifth.

The returns, based on weighted responses for each geographic area were as follows:

Western Europe	706 points
Canada	423 points
Latin America	398 points
Asia	296 points
Africa	47 points

As might be expected from a group of manufacturing companies, a definite preference was indicated toward industrial activities. All geographic areas reflected the same bias in opera-

tional preference as follows: manufacturing, host country sales and service, import/export trading, and assembly operations.

Department of Commerce figures covering the book value of American manufacturing operations abroad in 1970 indicate that out of a worldwide total of $32.2 billion, Europe was in first position with $13.7 billion, with Canada second at $10.0 billion. Investments in Latin American manufacturing stood at $4.6 billion, while investments in Asia (including Oceana) were $3.2 billion and in Africa $538 million.

In attempting to quantify reasons for investing abroad, the Task Force recognized it was dealing with a topic that at best involves a certain amount of subjectivity on the part of the companies surveyed. Yet it was felt that a questionnaire distributed and answered with complete independence among the responding executives would, at the very least, shed important light on the subject. It would be no coincidence if a substantial number of responses demonstrated similar priorities. This turned out to be the case. The respondents were also asked to rank their preference so that trends would be even more evident. Weighting in this case, as in surveying geographic preferences, utilized a system of five points for first choice declining to one point for fifth choice.

The reasons listed on the questionnaire were felt to be the nine most popular ones, and that other possible reasons were relatively atypical. Survey results indicated three leading reasons for investing abroad. The most popular motive was "better servicing of an existing market," a broad rationale. Some firms provided fuller explanation of what they meant by this term. For many it implied a clustering of diverse activities, such as sales, finance, warehousing, manufacturing, which in the aggregate helped make specific overseas operations more economic than continued export from the United States or continued use of licensing arrangements. For some it meant that expanded local operations provided greater responsiveness to a local market. For others it meant upgrading of licensing, and thus a more effective job of reaching the local market. For still others it implied several reasons on the list jointly.

Consistently, the second most popular reason was overcoming tariff and trade restrictions. The need to counter a move by a competitor to pre-empt a market was in third place, in most regions. Fourth most often mentioned was transport cost ad-

vantage. Labor cost advantage was never in first or second position and only in Asia did it rise as high as third place. Elsewhere it was farther down the list.

Another contention of labor unions, that American multinational corporations go abroad specifically to take advantage of special tariff provisions that permit duty-free re-entry of U.S. components assembled overseas (Sections 806.30 and 807 of the U.S. Tariff Schedules), was also discredited by the survey. This factor was marginal in all regions.

A complete listing of the reasons given for making foreign investments is given in the Appendices.

The U.S. Department of Commerce in a recent study, "Policy Aspects of Foreign Investment by U.S. Multinational Corporations," utilized the concept of "defensive strategies" as major motives for overseas operations. Responses to the Chamber questionnaire bears this out. Such popular explanations as tariff and trade barriers, counter moves to prevent competitors from preempting a market, and lack of acceptability for the U.S. product in the target market are all defensive responses to changing market conditions.

The Chamber survey also confirmed a conclusion of the Commerce Department study that, because of the defensive nature of much multinational strategy, restricting the operations of these corporations would not result in an expansion of United States production and increased exports, but, rather, would result in lost overseas markets and enlarged production by wholly foreign-owned facilities. In other words, the corporate decisions involved were normally not between U.S. and foreign production bases but between continuing to supply an overseas market or dropping out. Expansion abroad, therefore, was not accomplished at the expense of operations in the U.S.

Where survey respondents elaborated on the purely quantitative replies, the defensive nature of their investment policies was often apparent. One company emphasized that it invested in the European Economic Community area during the early 1960's because it saw potential growth there for the products it was exporting but felt it would be disadvantaged by the common external tariff policy if it continued to supply from the U.S. In several instances companies exporting over a period of many years found demand in the U.S. for a specific product no longer existed while demand in the overseas market was increasing.

In summary, the Chamber survey has demonstrated that multinational investments by U.S. manufacturing companies have been directed mainly to those regions whose economies are most comparable to the U.S., and that the investments were undertaken mainly to supply local markets, not to ship back to the United States. Labor cost advantages, while an element in these investment decisions, were not a leading factor and were blended in together with several others. Finally, investment decisions were largely defensive, taken with the view that overseas markets would otherwise have been lost and that foreign operations could not, and would not, be replaced by U.S. production and exports.

reasons for staying at home

While primarily interested in analyzing the reasons for multinational operations, the Task Force also sought to obtain a better understanding of the reasons why companies large enough to be included in the *Fortune* 1000 list would choose to limit their activities entirely to the United States. A total of 43 firms replied that they did not, at this time, operate abroad.

Though the sample was relatively small, it was apparent from these responses that the corporations involved shied away from multinationalism primarily for economic rather than governmental reasons. Respondents felt that the greatest deterrent was a lack of adequate capital, personnel, or expertise, in that order. Another major reason was that the domestic U.S. market was sufficient to satisfy all corporate expansion plans at this time. The only significant governmental factor mentioned was fear of expropriation and a parallel preference for a stable host government.

Nearly half of the firms responding indicated that chances were 50-50 or better that they would invest abroad during the next three years. The activities they expected to undertake, in order of preference, were manufacturing, sales/service, assembly, extraction, and trading. Respondents were fairly uniform in the requirements they felt were necessary for making the move overseas. Two factors stood out—an adequate market and a good return on investment.

For those firms that saw no prospect of setting up overseas, reasons submitted fell into two distinct groups—those that were purely internal to the companies involved, and those that com-

prised an evaluation of overseas circumstances. Among explanations in the first group were that a basic management decision had been made to concentrate on the domestic market, or that all available funds were needed for U.S. expansion. In the second group were such observations as the lack of a demonstrable need for company products abroad or present ability of the company to reach overseas markets through a program of licensing, agencies and franchising, or the fact that the possibility of expropriation was too great.

employment trends

The employment issue is by far the most critical element of the national debate surrounding multinational corporations. The charge that MNEs have weakened the American employment base is at the heart of the labor union critique and the basis for the AFL-CIO campaign to legislate controls over foreign investment.

A basic problem in dealing with the employment picture is that the union crusade has been mounted in the midst of recession, high levels of unemployment, and protracted inflation. This has been a period in which joblessness is a real problem, and the unions have laid it at the doorstep of the multinational companies. Moreover, the United States trade balance has seriously weakened over the past four years, with a $2 billion deficit in 1971, the first such excess of imports over exports in 83 years. The unions have mistakenly attempted to hold multinational corporations accountable for that trend as well.

Despite the national debate now under way, union critics of MNEs have presented no evidence to support their charges. Unemployment and a trade deficit are objective trends, but the necessary links with foreign investments have simply not been made. The findings of the Chamber survey offer a more realistic picture.

Worldwide employment of companies surveyed has climbed steadily. Among general manufacturing companies (extractive and automotive industries excluded) using data from 112 firms that replied, the Task Force found a 1960 total of 2.3 million jobs, rising to 3 million in 1965 and 3.7 million in 1970.[1] While the actual gains were larger in the second five-year period (712,455

[1] See Graph Number 1.

in 1965-70 vs. 688,593 in 1960-65) the rate of increase was slower (23.8 percent vs. 29.9 percent), largely reflecting the recession in the United States.

United States Employment. In examining trends in U.S. job levels during the period covered, the survey made three inquiries. First, it compared the performance of the MNEs responding with the national average. Second, it analyzed company performance according to the size of the employment rolls. Specifically, it distinguished between companies having over 5,000 employees worldwide in 1960 and those with 5,000 or fewer. This distinction was applied to both the 1960-1965 years and the 1965-1970 period. Third, it compared results with similar studies undertaken by the U.S. Department of Commerce. The number of companies covered is indicated for each comparison.

Domestic employment for 121 firms that answered the employment question (including extractive and automotive industries), indicates a significantly higher rate of increase than the national average during the 1960-1970 years. The gain was from 2.5 million jobs in 1960 to 3.3 million in 1970, representing a 31.1 percent rise, accomplished in the face of serious unemployment. If the automotive and extractive industries are excluded, the 1960-1970 increase is 39.1 percent.

Among the 121 companies, whose specific U.S. employment experience is detailed in an Appendix, only nine reveal a decline in U.S. jobs during the ten-year period surveyed. Of those, two are aircraft manufacturers whose operations were sharply curtailed during 1965-70 due to shifts in military spending and a reordering of American technological priorities. Two others are in the automotive field operating under the Canadian automobile agreement, revision of which is now sought by the U.S. Government.

The survey data generally coincide with the trends reported by the Commerce Department's studies of multinational enterprises.[2] In seeking to assess the labor union charge that foreign investments weaken domestic employment, that government agency examined employment trends in fourteen SIC groups within which are concentrated 92 of the 133 largest U.S. foreign direct investors. These groups include: petroleum refining, drugs, industrial chemicals, nonferrous metals, farm machinery, office and

[2] *Policy Aspects of Foreign Investment by U. S. Multinational Corporations*, January, 1972; *U. S. Multinational Enterprises and the U. S. Economy*, January, 1972.

computing machines, motor vehicles and equipment, canned-cured-frozen foods, soaps-cleaners-toilet goods, tires and tubes, communication equipment, blast furnace and basic steel products, household appliances, and paper and pulp mills.

Among these fourteen groups, only three experienced any decline in employment during the 1965-70 period. Motor vehicles showed a dip of 5.1 percent, while basic steel products and farm machinery each underwent a 4.7 percent employment decrease. One of the Commerce Department studies points out that employment levels in these three industries fluctuated throughout the period, and that motor vehicles were affected by the Canadian Automobile Agreement.

The other eleven groups experienced employment gains ranging from 6.2 percent for paper and pulp mills to 45 percent for office and computing machines. Several industries showing increased jobs included some which are facing strong import competition—for example, tires (12 percent), communications equipment (16 percent), office machines (45 percent), and household appliances (7 percent).

The Chamber survey and the Commerce Department study both highlight the contributions of U.S. multinationals to domestic employment.

In exploring the significance of multinational corporate size as it related to domestic employment trends, the Chamber survey found that smaller firms in a 103-company sample (those with 5,000 or fewer jobs worldwide in 1960) added to their U.S. employment at a faster rate than larger companies in both survey periods, 1960-65 and 1965-70. For the 25 smaller firms U.S. employment between 1960 and 1965 increased 78.8 percent, while employment in the 78 larger companies rose 23.2 percent. From 1965 to 1970 domestic employment for the smaller firms increased at a rate of 51.5 percent, while larger firms increased their jobs by 8.9 percent.

An examination of these 103 companies according to the extent of their geographic dispersal abroad indicates that 83 firms operating in four or more countries experienced a higher growth rate in U.S. employment in both 1960-65 and 1965-70 than was the case for 20 companies operating in fewer than four countries. Specifically, the rate of increase for the more geographically diversified companies was 24.1 percent in 1960-65 and 14.8 percent in 1965-70, while the rates for the less dispersed firms were a gain

of 29.5 percent in the first period and a decline of 4.7 percent in the second.

A study commissioned by the U.S. Department of Commerce helps explain the relative buoyance in the domestic employment trend of U.S. multinational corporations.[3] The study, by Professor Robert B. Stobaugh of the Harvard Business School, estimates that roughly 600,000 U.S. jobs have been created by foreign investments of the companies involved. The Chamber survey shows that had 90 companies not invested overseas, their estimated 1970 U.S. employment would have been lower by more than 157,000 jobs.

The Stobaugh study distinguishes three kinds of domestic employment generated by multinational corporations through their overseas activities. First are the jobs, mostly production workers, that are necessary to produce capital goods and intermediate goods (often assembled abroad) required in overseas plants. Second are those jobs in the main offices of U.S. multinational enterprises required to administer overseas operations. Third are supporting workers. Professor Stobaugh estimates these are 250,000 production workers, 250,000 headquarters workers, and 100,000 supporting jobs, for a total of 600,000.

Foreign employment by U.S. multinational enterprises has increased steadily over the past decade. Inevitably, as the book value of U.S. direct foreign investment in manufacturing activities abroad grew, so did the number of foreign workers employed in these operations. Thus, the book value of manufacturing increased from $11.2 billion in 1960 to $19.3 billion in 1965 and $32.2 billion in 1970.[4] The Chamber survey, based on 104 companies that replied to this question, indicated parallel gains in overseas employment. This increased from 459,000 jobs in 1960 to 682,000 in 1965 and over 1 million in 1970.

While the data are too limited to draw firm conclusions, there are indications that the growth of overseas employment by U.S. multinational corporations may be slowing down. For one thing, when firms with more than 5,000 employees worldwide in 1960 are distinguished from those with 5,000 or fewer, the first group is seen to experience a far slower rate of increase in the 1960-70 period.[5] This suggests that the larger companies have already

[3] *U. S. Multinational Enterprises and the U. S. Economy*, U. S. Department of Commerce, January, 1972.

[4] *Survey of Current Business*, October, 1971, pp. 28-29.

[5] See Graph Number 5.

made most of their major moves overseas, while smaller ones are still in the process of building foreign operations. The aggregate employment impact of these smaller firms will be more limited.

A second suggestion of this possibility appeared in responses to the survey on estimated foreign employment levels in 1975. Nineteen smaller firms estimated 1975 foreign employment at 157 percent above 1970 levels, but 48 larger companies estimated growth of only 25.8 percent.

Among firms replying to the survey, five industry groups in the general manufacturing sector accounted for nearly 50 percent of the increase in foreign employment during the 1965-70 period—business machines and computers, metal containers, tires, communications equipment, and conglomerates. Three of these, however, are also among those industries listed by the Commerce Department as enjoying strong rates of growth in domestic employment while facing strong import competition—office machines, communications equipment, and tires. The implication is strong that in the case of rapid-growth industries, employment expansion can occur vigorously both at home and abroad simultaneously. In the business machines industry, for example, computerization of business and government developed rapidly in both the United States and Europe throughout the 1960s. The survey revealed substantial growth in U.S. and foreign employment for these manufacturers throughout the period.

The employment of American citizens abroad has been very marginal in recent years among U.S. multinational corporations. According to the survey, there has actually been some decline in the relative role of these staffs. Based on responses from 100 companies, U.S. citizens accounted for only 0.9 percent of foreign employment in 1960. In 1970 this figure was 0.5 percent. The average is less than 50 U.S. citizens overseas per company.

In the debate over the employment impact of MNEs, critics have attempted to discredit the buoyant trend in domestic jobs by attributing this strong showing to corporate acquisitions rather than representing newly-created positions. The survey provided data on the role of acquisitions in the employment gains of 112 companies. Unfortunately, it did not cover corporate divestments occuring during the period, which would have counter-balanced the contribution of acquisitions, and provided a more realistic picture. The data indicated that just over one-third of total domestic employment gains in 1960-1970 were due to acquisitions.

Moreover, the survey showed that almost one-half of foreign employment gains in those years were accounted for by acquisitions. Thus, foreign employment gains are often the result of acquiring a going concern and not the initiation of a new enterprise.

The Chamber survey and the Department of Commerce studies reach very similar conclusions on the trend in employment. While the growth of foreign-based jobs occurred at a rapid rate during the 1960s, from a relatively small base, there are no indications that this phenomenon had any negative impact in the aggregate on United States employment. In fact, the very opposite appears to be the case.

First, American MNE domestic employment did not diminish, but rather grew, and did so far more rapidly than was the case for other companies in the general manufacturing sector during these years.

Second, this healthy domestic employment picture would undoubtedly have been even more vigorous were it not for the presence of a serious recession during 1970. In fact, the multinational corporations surveyed represented the healthiest part of the manufacturing sector in the midst of serious unemployment. It can only be assumed that with the recovery of the broader economy these companies will show even livelier growth rates in their payrolls.

Third, U.S. employment has been helped directly by foreign investment through the generation of exports. An estimated 25 percent of American exports are normally sent to overseas subsidiaries. This activity, together with home office administrative operations and supporting functions, creates substantial and growing employment.

Fourth, many, possibly most, overseas operations have been established for defensive purposes, to retain markets that would otherwise be lost due to tariff and trade barriers or aggressive moves by foreign business competitors. The typical management choice was between retaining or losing a market, not between U.S. or foreign operations.

Finally, financial return flows by foreign subsidiaries help to strengthen the profitability of the American parent companies, thereby permitting them to expand at home and to sustain increases in domestic employment.

international trade trends

Weakening in the U.S. trade balance during the past four years has brought intensified political controversy over foreign commercial policy. With growth in imports outstripping development of exports, the trade balance declined from a surplus of $7.1 billion in 1964 to a $2 billion deficit in 1971, the first for the United States since 1888.

While the causes of this trend are varied, there is general agreement that diminished international competitiveness in several U.S. manufacturing industries has been a major contributing factor. Increasing reliance on imported industrial raw materials has also been an important influence, and this trend is expected to become even more pronounced in the future. As the trade balance in textiles, shoes, steel, and parts of the electronics industry slipped into deficit, some jobs were lost.

Significantly, this changed trade situation has brought a complete about-face by many labor unions. The AFL-CIO, traditionally a supporter of liberal trade policies, has moved over into the ranks of those advocating restrictions against imports. Over the past two years the labor federation has also linked the problems created by mounting import competition to the overseas operations of American multinational corporations. The AFL-CIO charges that foreign manufacturing activities are designed to ship goods back to the U.S. while displacing exports, thereby hurting the domestic employment base. It should be noted, however, that not all unions or workers share these views.

The Chamber survey gathered data on the export and import experience of U.S. multinational enterprises as well as on their worldwide intra-corporate exchanges of goods. Analysis relates these corporate trade trends with domestic employment levels and distinguishes the trends between companies with varying levels of employment. Survey data has been compared with studies undertaken by the U.S. Department of Commerce.

The survey provides clear evidence that MNEs in general manufacturing have provided a strong element in the U.S. trade balance, and have contributed little to its recent weakness. Using

a sample of 81 companies answering both questions these MNEs showed a growing surplus—from an excess of exports over imports of $1.7 billion in 1960 to $2.5 billion in 1965 and to $5.1 billion in 1970.[1]

This continued strengthening has occurred in the face of a dramatic shift in the overall U.S. trade balance—from a surplus of $4.6 billion in 1960 and $7.1 billion in 1964 down to only $837 million in 1968. In 1970 it recovered to $2.7 billion, but then slipped into a $2 billion deficit in 1971.

The exports of 101 companies covered in the survey grew from $2.4 billion in 1960 to $3.5 billion in 1965 and to $6.9 billion in 1970. Gains in the first five-year period amounted to $1.1 billion and in the second to $3.4 billion, for percentage increases of 46 and 97 respectively.[2] The average level of exports for the 101 companies in the sample was $69 million in 1970.

On the import side, the aggregate of 94 companies covered rose from $365 million in 1960 to $635 million in 1965 and to $1.2 billion in 1970. Increases were $171 million, or 47 percent in the first five years and $668 million, or 125 percent in the 1965-70 period. Average imports per company covered amounted to $12.8 million in 1970. The survey made no distinction between imports of raw materials and finished materials, though presumably the increase took place in both categories.

The data demonstrated that smaller firms experienced a far more active rate of growth in their foreign trade during the 1960-70 period, once again suggesting that larger companies underwent the process of internationalization earlier, and that the major shift for them is already accomplished.[3] Specifically, 20 smaller firms (those with 1960 worldwide employment of less than 5,000 jobs) enjoyed export expansion from $59.9 million in 1960 to $356 million in 1970, for a 495 percent gain. Imports of these companies rose from $2.4 million in 1960 to $40.8 million in 1970 for a 1,636 percent increase. For 62 larger companies (over 5,000 jobs) exports grew from $2 billion in 1960 to $5.9 billion in 1970, for a 194 percent increase. Imports of these firms rose from $332 million in 1960 to $1.1 billion in 1970, for a 224 percent increase. It must be remembered, however, that the

[1] See Graph Number 2.
[2] See Graph Number 3.
[3] See Graph Number 4.

sample for the smaller firms was limited to only 20 companies. The trend is thus more suggestive than conclusive.

Because the imports of the MNEs in the aggregate rose at a rapid rate during the period covered, the Task Force decided to determine even more closely what the exact relationship was of those firms experiencing the greatest increases in imports with domestic employment. These import levels actually ranged from gains of as little as $2 million to as much as $86 million in the 1965-70 years. The net employment experience of 28 firms thus covered was an increase of over 169,000 U.S. jobs over five years. Moreover, while the imports of these companies increased by an aggregate $475 million in the period, their exports gained by $1.3 billion. *Clearly, even those MNEs experiencing rapid import growth have in the aggregate added to their U.S. employment.*

Data covering the employment, import and export experience of these 28 firms are listed below.

Corporation #	U.S. Employment 1965-70	Import Performance 1965-70 (millions)	Export Performance 1965-70 (millions)
1	+ 800	3	(negligible increase)
2	− 700	5	+269
3	− 5,150	84	+ 35
4	+ 7,000	20	+ 27
5	+ 8,000	16	(decrease of 4)
6	+45,772	86	+262
7	+12,000	17	+ 9
8	+ 4,826	2	+ 6
9	+13,000	7	+ 71
10	− 2,600	3	(decrease of 5)
11	+ 7,200	13	+ 11
12	+ 1,284	7	+ 6
13	+ 9,632	4	+315
14	+ 500	5	(negligible increase)
15	+ 1,000	21	+ 52
16	+ 1,764	2	+ 27
17	+ 1,280	3	+ 17
18	+ 7,000	26	+ 10
19	− 4,896	4	+ 4
20	+ 982	11	+ 25
21	+ 2,934	2	+ 21
22	—	2	(negligible increase)
23	+10,000	3	(decrease of 1)
24	+ 4,500	5	+ 10
25	+ 3,000	10	+ 51
26	+11,500	34	+128
27	+26,000	70	(negligible increase)
28	+ 2,100	10	(negligible increase)
Total gain:	169,328 (net)	$475	$1337 (net)

The survey data, including company responses on the reasons for operating abroad, run parallel to Commerce Department findings.

Commerce Department data reveal that overseas manufacturing affiliates ship a relatively small part of their annual sales volume back to the United States. In 1968, 78 percent of total affiliate sales (or $45.5 billion) was sold in the local markets where the foreign investments were located. Another 14 percent went to third-country markets, and only 8 percent was shipped to the U.S. Excluding Canadian cars, the latter figure would be only 4.2 percent, exactly what it was in 1965, before the volume of the car imports began to soar.[4]

Moreover, a Commerce Department study demonstrates that while imports from overseas manufacturing affiliates have grown, the increase in the proportion which these flows represent within total U.S. imports has been entirely due to the Canadian automotive agreement. Thus, Commerce Department data show that imports from foreign affiliates rose from $1.789 million in 1965 to $4.741 million in 1968. This represented 8.3 percent of all American imports in 1965 and 14.3 percent in 1968. Excluding cars from Canada, however, the 1968 figure comprises only 8 percent of total U.S. imports, actually slightly below the 1965 position.

Commerce Department data also point to substantial exports by MNEs to overseas affiliates. In 1965, latest year for which detailed statistics are available, a survey of 330 firms showed exports to affiliates (by parent companies and other suppliers) of $5.092 billion. Of that total $1.728 billion represented components for further processing or assembly, another $2.247 billion was for resale without further manufacturing, $356 million represented capital equipment, and another $487 million was unallocated. In addition, $273 million worth of goods was sold by affiliates on commission.

Commerce Department data for 1962-64, the latest years available, show that sales to overseas affiliates represented 25 percent of total American exports and nearly one-third of non-agricultural exports.

The Department study has suggested at least three reasons why

[4] See Graph Number 6.

foreign investments actively stimulate U.S. exports. First of all, many investments abroad are accomplished through an export of capital equipment, and often there is some continuous shipment of replacement equipment. Secondly, many parent companies ship parts, components, and industrial raw materials to affiliates for further processing and assembly. This is particularly true in automobiles, chemicals, machinery, and rubber products. Thirdly, a substantial volume of exports to affiliates is resold by overseas subsidiaries without further processing. The Department points out that in many instances affiliates are much more effective salesmen than non-affiliated foreign distributors. Affiliates have greater interest in these sales, can round out product lines with other parent company items, and their mere presence in other countries can stimulate interest in U.S. products. Also, the existence of sales facilities, warehouses and trained personnel on-the-spot must facilitate the sales of not only the affiliates' own products but of their parents' as well.

On the whole, then, the Commerce study observes, it seems reasonable to conclude that a considerable part of the U.S. exports sold through foreign affiliates would not have been sold without their presence.

Much interest has developed over the trends in intra-corporate trade, not only by overseas affiliates with their U.S. parent companies, but with one another. The Task Force survey obtained data on 64 companies for the year 1970. Two trends stand out. First, it was apparent that foreign affiliates found parent companies to be a more important source of their imports than a customer for their exports. Specifically, foreign affiliates of the 64 companies responding to the question exported 27.7 percent of 1970 shipments abroad to their parents, while acquiring 46.6 percent of their 1970 imports from their parents. The second trend was that a large part of the international trade transactions by overseas affiliates is maintained within the multinational company itself. Thus, 60.1 percent of these affiliate exports in 1970 went to other parts of the MNEs (including the parents), while 72.8 percent of all imports by foreign affiliates came from within these MNEs (including the parents).

In summary, the only conclusions to be drawn are that while U.S. multinational corporations have expanded both exports and imports rapidly and substantially, they are making a major con-

tribution to export development, enjoy a growing trade surplus, and have, accordingly, increased their U.S. employment more rapidly than the national average.

First of all, MNEs have broadened their surplus of exports over imports in the face of serious weakness in the American trade position.

Second, this strong trade showing has been accomplished despite the presence of severe inflationary trends which make U.S. products less competitive in world markets. It can only be assumed that with a reduction in the rate of inflation this MNE trade surplus will be further enlarged.

Third, the rate of expansion in both exports and imports has been more rapid among smaller MNEs, strengthening the belief that larger companies underwent internationalization earlier and that most of this longer-term shift has already occurred.

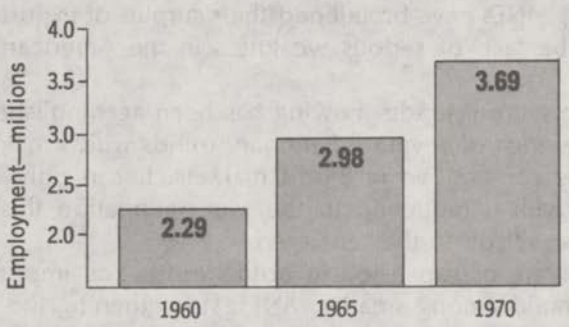
Fourth, even MNEs that have added most substantially to their imports have in the aggregate shown no decline in U.S. employment, but, quite the contrary, have added substantially to domestic job levels. In general, U.S. multinational enterprises have been conspicuously absent from those industries that have experienced a weakening in international competitiveness, negative trade balances, and declining U.S. employment levels.

Fifth, American affiliates abroad sell the overwhelming part of their production (in fact, 92 percent) in other countries and only a small part (8 percent) in the United States. When cars shipped from affiliates in Canada are excluded, affiliate exports to the U.S. are exceedingly modest (4.2 percent of total sales).

Sixth, while imports from affiliates have represented an enlarged part of total U.S. imports, all of this proportionate gain has been contributed by Canadian cars. If Canadian motor vehicles are excluded, U.S. imports from affiliates have actually declined slightly as a proportion of total imports.

Graph Number 1

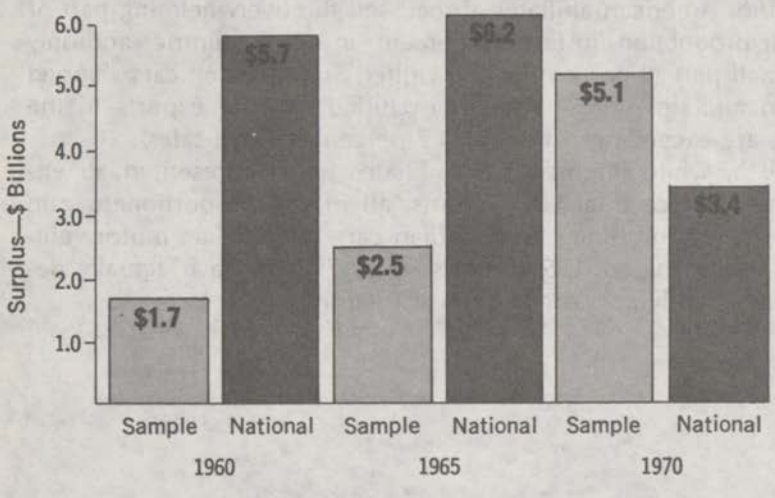
WORLDWIDE EMPLOYMENT (112 COMPANIES)



Worldwide Employment for 112 companies was:
1960—2,296,445
1965—2,985,038
1970—3,697,493

Graph Number 2

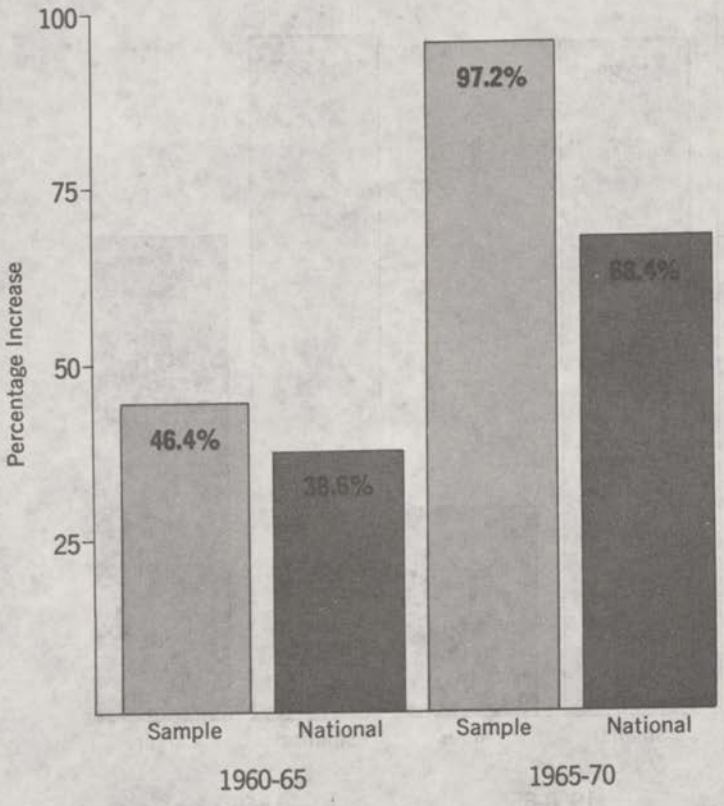
MANUFACTURED GOODS TRADE BALANCE SAMPLE (81 COMPANIES) VS. NATIONAL PERFORMANCE*



**Statistical Abstract of the United States*, 1971, U.S. Department of Commerce, Bureau of the Census, pp. 772-773, 777-778. The National Trade balance of manufactured goods was computed from figures of exports and imports in the categories of "Machinery and transport equipment", "Chemicals", and "Other manufactured goods."

Graph Number 3

PERCENTAGE INCREASE IN U.S. EXPORTS OF MANUFACTURED GOODS* AND PERCENTAGE INCREASE IN SURVEY SAMPLE (101) COMPANIES

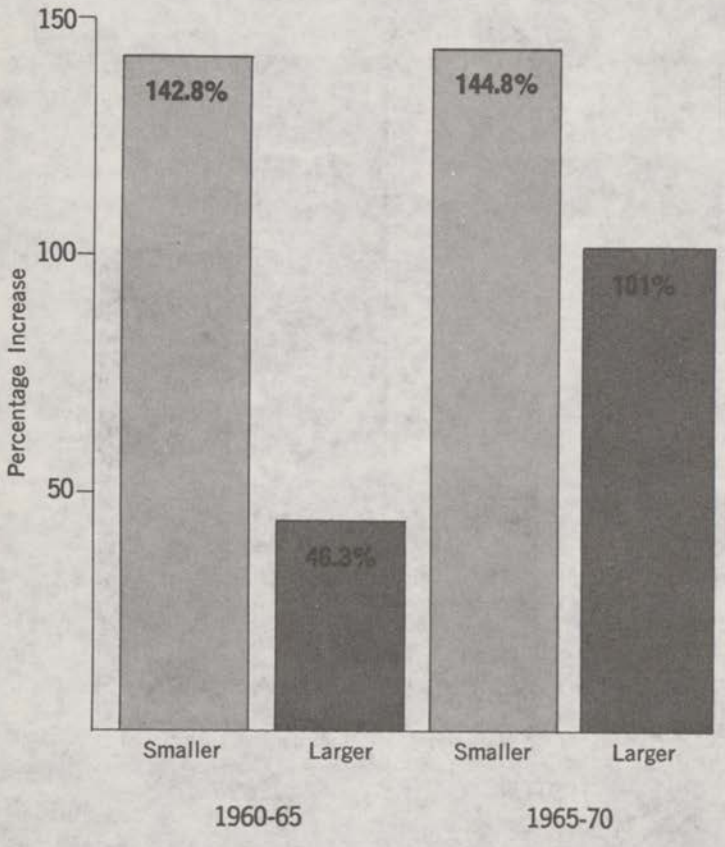


Source: National increases in exports of manufactured goods were obtained from *Overseas Business Reports*, U.S. Department of Commerce, number 65-60 (August, 1965) table 7 and number 71-009 (February, 1971) table 2.

National figures for exports in manufactured goods were:
1960—$12,583,000,000
1965—$17,432,000,000
1970—$29,340,000,000

Graph Number 4

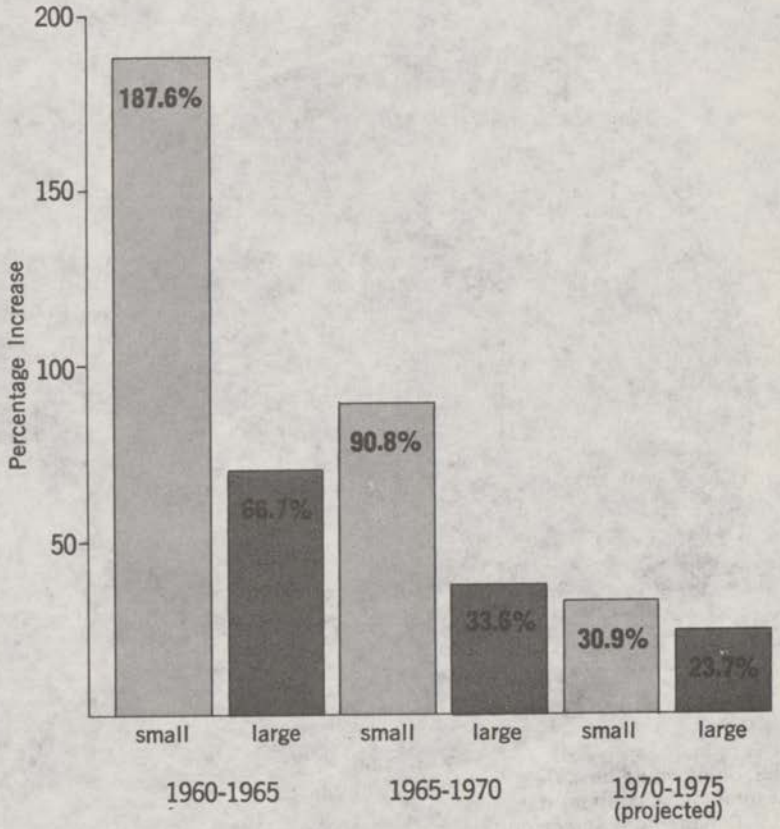
PERCENTAGE INCREASES IN EXPORTS SMALLER (20 COMPANIES) VS. LARGER (62 COMPANIES)*



*Companies in the "smaller" category were determined by listing those with 5,000 or less employees worldwide in 1960. For the 20 companies in this category, exports were: $59,840,000 in 1960; $145,335,000 in 1965; $355,803,000 in 1970. For the 62 companies in the "larger" category exports were: $1,980,932,000 in 1960; $2,897,690,000 in 1965, and $5,825,391,000 in 1970.

Graph Number 5

PERCENTAGE INCREASES IN SMALLER (19) VS. LARGER (54) COMPANY FOREIGN EMPLOYMENT

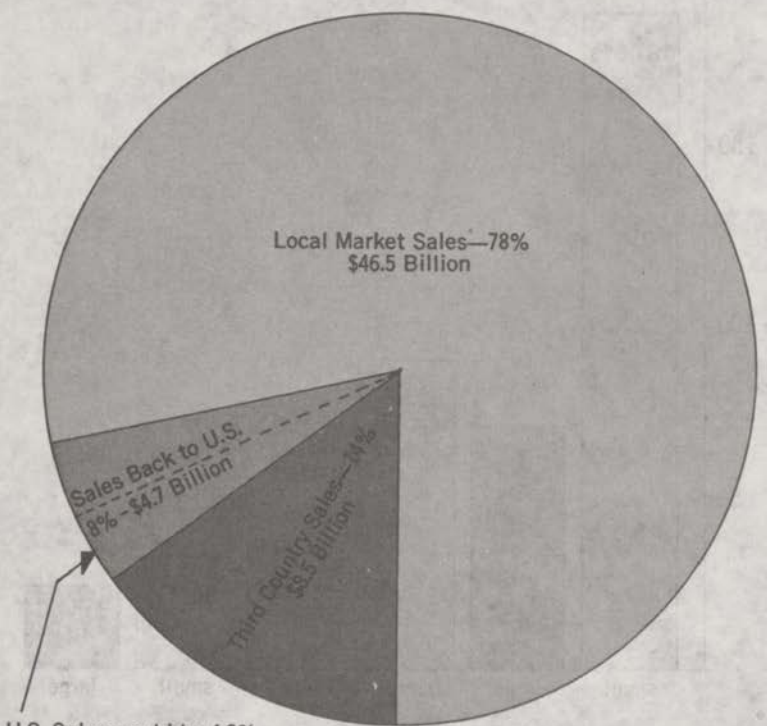


Foreign Employment for 19 Smaller Companies:
1960— 4,523
1965—13,003
1970—24,811
1975—32,458
(est.)

Foreign Employment for 54 Larger Companies:
1960—224,129
1965—373,916
1970—499,426
1975—617,744
(est.)

Graph Number 6

FOREIGN MANUFACTURING AFFILIATE SALES OF U.S. MNEs* 1968 TOTAL SALES = $59.7 BILLION



*Source: *Trends in Direct Investments Abroad by U.S. Multinational Corporations, 1960-1970,* U.S. Department of Commerce, Bureau of International Investment, February, 1972: pp. 18-20 and table 9, p. 48.

Appendix I

CONFIDENTIAL

CHAMBER OF COMMERCE OF THE UNITED STATES OF AMERICA

MULTINATIONAL ENTERPRISE SURVEY

Please return to:

MNE Survey, International Group
Chamber of Commerce of the United States
1615 H Street, N.W.
Washington, D.C. 20006

All Inquiries to:

Chamber of Commerce of the United States
International Group
1615 H Street, N.W.
Washington, D.C. 20006
TELEPHONE: (202) 659-6114 or 659-6115

PLEASE COMPLETE AND RETURN BY OCTOBER 18, 1971

81-022 O - 72 - 30

This questionnaire is being circulated to approximately 800 member corporations in the United States. It is part of the Multinational Enterprise Task Force program of work at the National Chamber and will be treated in strictest confidence. No individual data will be divulged, and the raw data will be retained in the National Chamber only as long as necessary. Aggregate statistics from the results will be circulated to all participating firms.

ALL FIRMS SHOULD COMPLETE QUESTIONS 1-5 AS FAR AS POSSIBLE. THOSE WITH FOREIGN OPERATING UNITS SHOULD COMPLETE QUESTIONS 6-17 ALSO.

INSTRUCTIONS

1. Where precise figures cannot be given, please give estimates, indicating an "E" behind the estimated data.

2. Please leave no blank space. If the question is inapplicable, write "N.A." or "not applicable".

3. Please provide as much detail as possible. If more space is required, use an additional sheet(s) of paper and indicate the question number being covered.

4. Definitions:

   a. "Multinational Enterprise" includes any corporation with the parent company incorporated in one country, having operating unit(s), branch(es), or subsidiary(ies) in other countries.

   b. "Operating Unit" includes a manufacturing, extraction, assembly, or service element in which your firm has effective control.

   c. "Effective control" means your firm enjoys *de facto* control over the operations though it need not have majority shareholding interest.

   d. "Participation" means the ownership of the facility involved.

   e. "Host country" refers to the country in which the facility is located or function is performed.

5. For questions dealing with geographic breakdowns, "United States" includes only the 50 states; "Western Europe" includes those countries north of the Mediterranean, including Turkey; "Asia" includes those countries south of the Mediterranean, excluding the African Continent; "Central America" extends from Mexico to Panama and "South America" includes that continent.

6. Example of questionnaire format for questions dealing with dollars and numbers.

   Total U.S. capital at start up. (In $000) [ ][ ][ ], [ ][ ][5], [0][0][0]

   Foregoing indicates total U.S. capital, in dollars, is 5,000,000.00.

   Total employees. [ ][ ][ ], [ ][ ][ ], [8][0][0]

   Foregoing indicates total employees as 800.

CONFIDENTIAL

1. Please designate an executive in your firm who can be contacted, personally or through the mail, regarding multinational operations.

Name:_____ Address:_____

Title:_____

Phone:_____

2. In how many countries besides the U.S. do you have operating units?

_____None (Please answer questions 3, 4 and 5)

_____1 or more – Specify No. (Go to Question 5)

3. If you *DO NOT* now have foreign operating units, identify specific governmental (foreign or U.S.), or non-governmental factors that have directly contributed to your decision *NOT* to have such operations to date.

_____

_____

_____

_____

_____

_____

_____

_____

_____

4.1 If you *DO NOT* now have foreign operating units, under what conditions would you consider expanding abroad?

_____

_____

_____

4.2 How likely is it that your firm will begin operating in a foreign area in the next 3 years?

_____ Practically assured
_____ Highly likely
_____ 50-50 Chance
_____ Unlikely

4.3 If you begin overseas operations, which of the following activities will you engage in? (Check as many as apply)

_____ Manufacturing
_____ Assembly
_____ Extraction
_____ Trading (Exporting/Importing)
_____ Sales & Service
_____ Banking
_____ Insurance
_____ Other_____ (Specify)

5. Is your firm prepared to furnish the National Chamber with additional information, if requested, on any of the following topics?

		YES	NO
5.1	The effect and enforcement of U.S. anti-trust laws on foreign investments, or on the decision to make a foreign investment.	_____	_____
5.2	Specific U.S. Governmental activities affecting (positively or negatively) a decision to make a foreign investment.	_____	_____
5.3	Host government activities that have positive or negative impact on multinational operations.	_____	_____
5.4	Labor costs and labor practices in host countries.	_____	_____
5.5	Comparative labor practices between U.S. operations and foreign operations (e.g., training programs, advancement, fringe benefits).	_____	_____
5.6	Information on "decision making" within your multinational operations, i.e., the source, procedures, reasons behind your actions, *vis a vis* particular foreign units.	_____	_____
5.7	The impact of the activities of the International Labor Organization on your firm with regard to wage rates, fringe benefits, and working conditions of your employees in operating units outside the U.S.	_____	_____
5.8	Corporation practices toward research and development, including the location of R & D, degree of government support (U.S. & foreign), and the costs and benefits involved in the transfer of technology.	_____	_____
5.9	Any other topics relating to the Multinational Enterprise that you feel warrant additional coverage.	_____	_____

5.9.1 Please specify_____

_____

If your firm *HAS NO* foreign operations at this time, you have completed the questionnaire. Please return the form to the Chamber of Commerce of the United States.

If your firm *NOW HAS* foreign operations, please complete the remaining questions.

6.1 This question refers to the factors considered by your firm in making decisions to engage in foreign operations. Because the reasons might vary depending on location and kind of operation, please complete the following data for your most important operations (up to six). List the locations in order of importance to you, "1" being most important, "2" being second, etc. If it is more appropriate to use regions rather than individual countries to designate areas, please use a regional designator (e.g., Europe, Central America, etc.) following the guidelines under Instruction No. 5.

	LOCATION OF OPERATION					
	1	2	3	4	5	6
	_____	_____	_____	_____	_____	_____
OPERATIONS CONDUCTED (Check as many as apply for each location)						
Extraction	_____	_____	_____	_____	_____	_____
Manufacturing	_____	_____	_____	_____	_____	_____
Assembly	_____	_____	_____	_____	_____	_____
Trading (Import/Export)	_____	_____	_____	_____	_____	_____
Host Country Sales & Service	_____	_____	_____	_____	_____	_____
Banking	_____	_____	_____	_____	_____	_____
Insurance	_____	_____	_____	_____	_____	_____
Other (please specify)	_____	_____	_____	_____	_____	_____

6.2 This section covers the reasons for entering a given geographical area. Please place an X in the box indicating the importance of each factor to each location "1" being most important and "5" least important.

	LOCATION OF OPERATION																													
	1					2					3					4					5					6				
Reason	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
Tariff & Trade Restrictions																														
Better servicing of existing market																														
Counter move to prevent competitor pre-empting market.																														
Tax benefits (include host country incentives)																														
Labor cost advantage																														
Raw material availability/ cost.																														
Transport costs																														
U.S. product not acceptable to market																														
806.30 & 807 for re-entry to U.S.																														

7. The statements on the left side of the page represent the stated legislative and policy objectives of organized labor toward the multinational enterprise and U.S. foreign investments. For each statement, indicate the effect it will have on your operations and your response to it by placing an X in the appropriate boxes.

	THE EFFECT WILL BE			Are you NOW taking any form of action regarding these objectives of labor?		Would you be willing to testify on the effects of this action before a Congressional Committee?		Do you have specific company policy if this becomes law?	
	Beneficial	Adverse	Nil	Yes	No	Yes	No	Yes	No
7.1 Regulate and supervise export of capital to all countries.									
7.2 Remove tax incentives now in law to spur foreign investment. This includes requiring taxation of profits wherever earned at the time that they are earned.									
7.3 Require reporting of output, employment, hours, earning by establishment by SIC number to 7-digit level for foreign locations by U.S. firms, just as they are now required to report for U.S. establishments.									
7.4 Refuse to grant new tax-loopholes, such as DISC.									
7.5 Require reporting of import and export data by product, not just dollar volume.									
7.6 Require labeling of products by country of origin from any country—including U.S. brand items and all components.									
7.7 Require uniform accounting procedures by multi-national firms as now required for defense contracts.									
7.8 Tax the export of capital to create a disincentive to produce abroad.									
7.9 Make U.S. Government-subsidized patents the property of U.S. Government with royalties paid to U.S. Treasury.									

8. We would like your comments on each of these proposals. *For each statement listed in Question #7,* please answer the following questions *on a supplemental sheet.*

   8.1 What are the *immediate* effects (beneficial or adverse) on your foreign operations?

   8.2 What action would your firm take if this statement became law?

   8.3 What action is your firm NOW taking to meet this proposal?

   8.4 What position would you take on this proposal in a Congressional debate?

9. Please outline your *general* corporate strategy to meet these proposals.

EXPORTS AND IMPORTS

10. Geographical distribution of exports & imports from your foreign operations.

	PERCENTAGE											
	1960				1965				1970			
	Exports		Imports		Exports		Imports		Exports		Imports	
10.1 United States		%		%		%		%		%		%
10.2 Canada												
10.3 Mexico												
10.4 Central & South America (exclude Mexico)												
10.5 Western Europe												
10.6 Japan												
10.7 Other Asia												
10.8 Other												
	100%		100%		100%		100%		100%		100%	

11. Dollar value of exports & imports between foreign operations and: ($000)

	Exports	Imports	
11.1 Your parent company			1960
			1965
			1970
11.2 Other foreign operations of your parent company.			1960
			1965
			1970
*11.3 Other (including U.S. and abroad).			1960
			1965
			1970

12. Origin of exports & imports for your foreign operations:

	PERCENTAGE											
	1960				1965				1970			
	Exports		Imports		Exports		Imports		Exports		Imports	
12.1 Your parent company		%		%		%		%		%		%
12.2 Other foreign operations of your parent company												
*12.3 Other (including U.S. and abroad)												
	100%		100%		100%		100%		100%		100%	

*If you wish you may break down into U.S. and foreign.

The following questions refer to your historical and expected levels of employment, exports and imports, and investments.

EMPLOYMENT	1960	1965	1970	(estimated) 1975
13.1 Total, Worldwide				
13.2 Employees in U.S.				
13.3 Foreign Employment (Total)				
13.4 Foreign Employment (U.S. citizens)				

14. How many *U.S. Employees* were gained via acquisition (at time of acquisition)

14.1 1960 - 1965 _____ 14.2 1965 - 1970 _____

15. How many *foreign-based* employees were gained via acquisition (at time of acquisition) or start-up of new foreign operations.

15.1 1960 - 1965 _____ 15.2 1965 - 1970 _____

16. If you had *not* engaged in foreign operations, what would your *U.S.* employment have been in:

1960_____ 1965_____ 1970_____

SALES ($000)	1960	1965	1970	(estimated) 1975
17.1 In U.S.				
17.2 Outside				
17.3 Total				

IMPORTS ($000)				
18.1 To U.S. from all Other Countries				
18.2 % re-exported				

EXPORTS ($000)				
19.1 U.S. to all other				
20.1 If your firm had no foreign operations: what would your U.S. sales be:				
20.2 What would your foreign sales be:				
20.3 What would your exports (from U.S.) be:				
20.4 What would your imports be:				

Consistent with National Chamber By-Laws, this is an informal poll to determine trends of business opinion on questions currently important, the results not to be binding upon the Chamber as to policy, but to be advisory to the Board of Directors and management.

Appendix II

ADVANCING VOLUNTARY LEADERSHIP IN A CHANGING WORLD

Chamber of Commerce of the United States

INTERNATIONAL GROUP

202·659-6111
CABLE ADDRESS-COCUSA
TELEX NUMBER-64446

November 22, 1971

Dear Sir:

Thank you for responding to our Multinational Enterprise Survey. In processing the results from this questionnaire it has become apparent there are some questions subject to more than one interpretation.

Please examine the attached sheet and submit a second response to those questions your firm did not answer in the manner described here. We would appreciate having your answer as soon as possible to enable us to complete our Report early in 1972.

Thank you.

Sincerely yours,

Donald J. Mûsch.

Donald J. Mûsch, Staff Executive
Task Force on the Multinational Enterprise

Enclosure

Appendix III

task force members

Lee L. Morgan, CHAIRMAN
President
Caterpillar Tractor Company

Robert G. Barnes, Manager
International Government Relations
Mobil Oil Corporation

Hugh M. Blake
Senior Vice President
American International Underwriters

Richard M. Brennan
Director of International
Trade and Tariff Affairs
Union Carbide

Clark D. Burton
Vice President
First National Bank of Boston

Henry Cunningham
Public Relations—Washington Office
Kaiser Industries

Alphonse de Rosso
Senior Adviser
Public Affairs Department
Standard Oil Co. (N. Jersey)

H. Robert Diercks
Executive Vice President
Cargill, Incorporated

Earl B. Dunckel
Consultant—Business Environment
General Electric

Myron T. Foveaux
Director, Trade Policy
Monsanto Company

James R. Kennedy
Vice Chairman
Celanese Corporation

Glenn H. Kent
Director, Administration
Honeywell Information Systems

Dr. R. O. Lang
International Administrator
International Operations
S. C. Johnson & Sons, Inc.

Stuart Lerner
Manager, Government Relations
CPC International, Inc.

Edward Littlejohn
Vice President, Public Affairs
Charles Pfizer & Co., Inc.

Robert Maynard
Vice President & General Counsel
U.S.M. Corporation, Inc.

William R. Merriam
Vice President and Director
Washington Relations
ITT Corporation

J. Irwin Miller
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reasons for investing

Western Europe	1.	Better servicing of existing market	687
	2.	Tariff & Trade Restrictions	486
	3.	Counter move to prevent competitor pre-empting market	316
	4.	Transport costs	307
	5.	U. S. product not acceptable to market	245
	6.	Labor cost advantage	242
	7.	Raw material availability/cost	186
	8.	Tax benefits (include host country incentives)	152
	9.	806.30 and 807 for re-entry to U.S.	53
Canada	1.	Better servicing of existing market	419
	2.	Tariff & Trade Restrictions	303
	3.	Counter move to prevent competitor pre-empting market	178
	4.	Transport costs	170
	5.	Raw material availability/cost	153
	6.	Labor cost advantage	104
	7.	U.S. product not acceptable to market	103
	8.	Tax benefits (including host country incentives)	91
	9.	806.30 and 807 for re-entry to U.S.	37
Latin America	1.	Better servicing of existing market	491
	2.	Tariff & Trade Restrictions	368
	3.	Counter move to prevent competitor pre-empting market	255
	4.	Transport costs	183
	5.	Labor cost advantage	179
	6.	Raw material availability/cost	156
	7.	Tax benefits (including host country incentives)	151
	8.	Product not acceptable to market	82
	9.	806.30 and 807 for re-entry to U.S.	48
Asia	1.	Better servicing of existing market	414
	2.	Tariff & Trade Restrictions	319
	3.	Labor cost advantage	245
	4.	Transport costs	220
	5.	Counter move to prevent competitor pre-empting market	220
	6.	Raw material availability/cost	162
	7.	U. S. product not acceptable to market	120
	8.	Tax benefits (including host country incentives)	117
	9.	806.30 and 807 for re-entry to U.S.	52

	Reason	
Africa	1. Better servicing of existing market	109
	2. Tariff & Trade Restrictions	68
	3. Counter move to prevent competitor pre-empting market	57
	4. Raw material availability/cost	50
	5. Labor cost advantage	47
	6. Transport costs	45
	7. Tax benefits (including host country incentives)	34
	8. U.S. product not acceptable to market	18
	9. 806.30 and 807 for re-entry to U.S.	5

domestic employment statistics

Listed below are the approximate domestic employment statistics from 1960 to 1970 for the 121 reporting firms, along with their appropriate Standard Industrial Classification (SIC) numbers:

SIC NUMBER	1960	1970	CHANGE IN EMPLOYMENT
3721	81,600	78,900	− 2,700
2621	13,500	14,500	+ 1,000
2514	7,400	10,800	+ 3,400
3721	5,000	6,300	+ 1,300
6146	8,200	13,800	+ 5,600
3822	5,200	8,200	+ 3,000
2771	5,400	6,100	+ 1,700
3729	1,000	2,300	+ 1,300
3931	3,000	2,800	− 200
3534	12,200	14,200	+ 2,000
3651	8,100	4,100	− 4,000
3481	5,500	7,700	+ 2,200
2096	6,000	6,700	+ 700
3494	3,200	9,700	+ 6,500
3443	5,000	8,000	+ 3,000
3079	27,800	46,900	+19,000
3742	12,100	10,800	− 1,300
3579	11,000	16,500	+ 5,500
3722	57,000	68,000	+11,000
2211	16,000	20,000	+ 4,000
3711	3,500	6,200	+ 2,700
2099	500	1,100	+ 600
3622	70,500	56,400	−14,100
2042	8,000	19,000	+11,000
2335	1,000	4,200	+ 3,200
3522	66,500	71,200	+ 4,700
3011	36,600	55,800	+19,200
3452	2,700	3,500	+ 800
2641	1,000	2,900	+ 1,900
2295	21,000	37,400	+16,400
2844	3,000	14,000	+11,000
2082	500	1,300	+ 800
2655	48,500	54,000	+ 5,500
2043	14,000	23,000	+ 9,000
3662	70,000	156,900	+86,900
3581	2,600	2,900	+ 300
3694	4,400	7,600	+ 3,200
3662	11,600	16,000	+ 4,400
3211	30,700	31,600	+ 900
3721	67,800	86,800	+19,000
2818	14,000	33,000	+19,000
3579	5,400	12,000	+ 6,600
3566	1,100	1,700	+ 600
3822	34,000	58,000	+24,000
2842	15,000	22,000	+ 7,000
2046	11,500	14,400	+ 2,900
2032	4,500	5,500	+ 1,000
3522	27,600	28,100	+ 500
3411	46,500	50,100	+ 3,600

SIC NUMBER	1960	1970	CHANGE IN EMPLOYMENT
2823	12,500	25,700	+13,200
3562	7,000	10,400	+ 3,400
3545	500	3,000	+ 2,500
2042	2,600	6,700	+ 4,100
3821	6,800	11,000	+ 4,200
3559	7,200	11,000	+ 3,800
3537	35,500	52,500	+17,000
6711	8,200	8,600	+ 400
2834	5,000	11,900	+ 6,900
3585	11,400	17,900	+ 6,500
3941	700	3,000	+ 2,300
3221	34,400	47,400	+13,000
5099	800	1,300	+ 500
3399	6,000	8,000	+ 2,000
3312	8,100	9,000	+ 900
3622	15,000	31,000	+16,000
3861	3,000	37,000	+34,000
3831	3,500	7,500	+ 4,000
3561	26,000	30,000	+ 4,000
3561	10,000	21,000	+11,000
3511	30,100	25,200	− 4,900
1621	800	1,100	+ 300
3537	1,800	4,800	+ 3,000
3291	5,800	8,300	+ 2,500
2834	7,900	12,600	+ 4,700
2621	10,000	21,000	+11,000
2085	10,500	15,200	+ 4,700
3554	5,300	8,900	+ 3,600
3069	34,100	37,600	+ 3,500
2834	8,200	13,100	+ 4,900
3639	11,700	14,200	+ 2,500
3624	54,000	57,500	+ 2,500
2812	25,900	28,800	+ 2,900
2821	1,900	2,800	+ 900
2052	21,000	24,000	+ 3,000
3671	40,000	40,700	+ 700
3011	26,000	40,000	+14,000
2819	2,000	9,000	+ 7,000
3535	1,600	2,300	+ 700
2834	5,100	8,500	+ 3,400
3599	1,700	3,000	+ 1,300
2661	5,000	6,700	+ 1,700
3634	14,500	23,800	+ 9,300
2031	19,300	25,700	+ 6,400
2111	11,000	15,000	+ 4,000
3662	40,000	54,000	+14,000
3643	3,000	6,000	+ 3,000
2911	600	1,000	+ 400
2911	38,100	37,000	− 1,100
6711	48,500	43,100	− 5,400
1042	2,500	2,800	+ 300
2911	4,700	20,700	+16,000

SIC NUMBER	1960	1970	CHANGE IN EMPLOYMENT
3711	105,400	129,100	+23,700
3231	14,000	18,600	+ 2,600
1212	9,000	24,000	+15,000
2818	7,300	10,200	+ 2,900
3711	458,000	492,000	+34,000
3861	45,900	67,000	+21,000
2621	15,200	19,000	+ 3,800
3275	11,200	14,100	+ 2,900
2631	5,500	43,600	+38,100
1021	20,200	28,100	+ 7,900
1459	2,000	2,900	+ 900
1311	17,800	15,900	− 900
1311	25,600	27,400	+ 1,800
1311	6,300	7,000	+ 700
3333	22,700	27,600	+ 4,900
3949	13,700	18,500	+ 4,800
6711	40,900	42,700	+ 1,800
3611	1,400	4,400	+ 3,000
2631	25,900	37,900	+12,000
3461	36,300	41,000	+ 4,700

APPENDIX 7

The Role of the Multinational Corporation in the United States and World Economies

Emergency Committee for American Trade

81-022 O - 72 - 31

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THE ROLE OF THE MULTINATIONAL CORPORATION (MNC) IN THE UNITED STATES AND WORLD ECONOMIES

Introduction

Multinational corporations have made a major contribution to the expansion of world trade and investment. They have done so in accord with an American foreign economic policy that by word and deed has supported the postwar movement towards a more open international economy.

Peter Drucker has called this movement the greatest achievement of the postwar period. It replaced an era of protectionism (which Paul Samuelson said does not provide protection but succeeds only in "making the world less productive").

As the result of the new movement, the world became more productive. Trade grew rapidly, outpacing the rate of economic growth of most nations. And then investment grew even faster, eventually surpassing trade as the chief economic link between the United States and the rest of the world.

For a few nations whose economies were highly protected by trade barriers and for those highly protected sectors in industry or agriculture that exist in every nation, the movement towards a more open international economy has produced problems. But, overall, it has meant more wealth for each nation and more harmony among nations.

While contributing to the growth of the world economy, multinational companies have also grown in number and size. American companies responsible for a substantial amount of production abroad have existed since the beginning of the century. They are not an American phenomenon. Similar international production by companies based in other industrialized nations as a group has been proceeding in rough conformity to the ratio of their gross national product to that of the United States. Most other industrialized countries make a higher percentage of their investments abroad than the United States.

The international activities of multinational corporations increased markedly in the 1960's and interest and controversy has risen as a result. The members of the Emergency Committee for American Trade (ECAT) requested that this study be undertaken knowing that related studies have been conducted by other groups and that the United States Government is engaged in thorough research on the subject. ECAT decided to act because of the great importance of trade and investment to its members and because of the pressing need for comprehensive and objective data.

The purpose of the ECAT study was to obtain detailed information on the actual operations of American multinational corporations during the 1960's so that the issues raised by these activities could be dealt with

on the basis of fact rather than theory. This was made possible by the cooperation of a sufficient number of respondents to a very demanding survey.

Specifically, we have attempted, on an industry-by-industry basis, to ascertain from respondents:

- The absolute and relative growth of their domestic and foreign manufacturing activities from 1960 to 1970;
- The effect of their overall operations on domestic and foreign employment levels;
- The most important determinants of their foreign investment decisions for each geographic area and industry group;
- The relationship between their foreign manufacturing investments and the merchandise trade flows; and
- The implications of the international transfer of their technology for the competitive position of the United States in world trade.

SUMMARY

The data from the 74 multinational corporations covered in this survey reveals that in the years between 1960 and 1970 when these companies were increasing their overseas operations, they also:

--Increased the number of their domestic employees by nearly 900 thousand from 2,452 thousand to 3,348 thousand,

--Increased the book value of their fixed assets in U. S. manufacturing facilities from $15.3 billion to $34.1 billion, a gain of $18.8 billion,

--Increased their sales from American facilities from $58 billion to $113 billion, a gain of $55 billion,

--Increased their exports from the United States to the rest of the world from $4.3 billion to $12.2 billion, a gain of $7.9 billion,

--Increased their net surplus of exports over imports from $3.2 billion to $6.6 billion, a gain of $3.4 billion,

--Increased the balance-of-payments inflows attributable to their foreign investments--dividends, earnings, interest, royalties and fees--from $.5 billion to $2.4 billion, a gain of $1.9 billion,

--Increased their annual net balance-of-payments inflows from $2.9 billion to $7.3 billion, a gain of $4.4 billion.

Our survey has further documented:

--That the industries which account for a large and growing share of foreign direct investments (e.g., non-electrical machinery, chemicals, and instruments and related products) account for the preponderant part of the U. S. merchandise trade surplus in manufactured products,

--That these same industries have been among the most rapidly growing manufacturing industries in the United States, and

--That the international investment activities of the respondents played an important role in their rapid export growth and consequently made a major positive contribution to their domestic sales, investment, and employment growth.

Contrary to the popular misconception that foreign subsidiaries of American firms have been created for the purpose of serving the U. S. market, our survey has revealed:

--That foreign investments are made primarily to meet market demands that cannot be served by exports from the United States,

--That exports from non-Canadian foreign affiliates to the United States amounted to only about 2 percent of their total sales during the 1960's.

--That a substantial proportion of that 2 percent consisted of unprocessed raw materials, and

--That the total imports, including raw materials, from non-Canadian foreign affiliates were equivalent to only 0.7 percent of the respondents' production in the United States in 1970.

The companies covered by the survey are broadly representative of large American multinational corporations. These findings further establish that during the 10 year period covered by the survey, American multinational companies have:

--Increased their domestic employment (exclusive of employment gains through acquisition) more rapidly than the average manufacturing firm. Their rate of new job creation was about 75 percent greater than that of all other manufacturing firms,

--Increased their investment in domestic plant and equipment more rapidly than other U. S. manufacturing firms and more rapidly than their foreign investments,

--Increased their domestic sales more rapidly than the typical U. S. manufacturing firm,

--Increased their sales from domestic facilities twice as much as from their overseas operations,

--Exported a growing proportion of their domestic production. Their ratio of exports to domestic production in 1970--10.8 percent--was double that of the average U. S. manufacturing firm.

--Accounted for a small and (except for U. S.-Canadian automobile trade) declining proportion of total U. S. imports.

Survey Coverage

This survey is based on an analysis of the domestic and international operations of 74 U. S. corporations, representing a broad group of large multinational corporations.

The data used in the survey were obtained through a questionnaire sent to 117 large U. S. corporations substantially involved in international business operations.[1/] The firms selected included all ECAT members chiefly engaged in manufacturing activities (45 firms) and 72 other multinational firms.

Aggregate sales of the survey respondents amounted to $113 billion in 1970, equivalent to approximately 18 percent of total U. S. shipments of manufacturers' products.[2/] The respondents' combined equity in foreign

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1/ Usable responses were obtained from 74 firms (36 ECAT members and 38 non-members), 8 responses were not usable (1 ECAT member and 7 non-members), 17 firms chose not to participate, and 18 firms failed to respond. Reasons for rejection included incomplete or inconsistent data (which could not be corrected after follow-up with respondents), inability to provide data for all years, and submission too late to be included in the survey.

2/ The survey coverage is largest for industries engaged in the production of motor vehicles, instruments and related products, aircraft, nonelectrical machinery, and paper and allied products. In each of the foregoing industries, survey respondents accounted for over 25 percent of total U. S. shipments of comparable products. In the case of the industries producing electrical machinery, chemicals, and food products, survey respondents accounted for approximately 10 to 25 percent of the total value of U. S. shipments. In the two remaining categories, primary and fabricated metal products and "miscellaneous manufacturing industries" (which includes firms engaged in publishing and the production of rubber products, tobacco manufacturers, nonmetallic mineral products, and sporting goods), survey participants accounted for only 5 percent of total U. S. shipments.

manufacturing affiliates amounted to $14.4 billion at the close of 1970, or approximately 45 percent of the total book value of U. S. manufacturing investments abroad as reported by the U. S. Department of Commerce. (Tables 2 and 3.)

The survey coverage is largest for those industries with a high volume and proportion of international investment (e.g., motor vehicles and nonelectrical machinery). Respondents in nearly every industry group have a higher proportion of foreign investment than typical firms in their industries. Thus, we believe that the survey accurately reflects the economic impact of multinational corporations on the United States economy.

Domestic and Foreign Investments

Book Value of U. S. Direct Investments Abroad. The U. S. Department of Commerce reports that as of December 1970 the total value of U. S. foreign direct investments amounted to $78.1 billion. (Table 2.) Investments in manufacturing affiliates ($32.2 billion), however, accounted for only 41 percent of this total. The petroleum industry accounted for a large proportion of the remaining direct investment ($21.8 billion) while mining and smelting ($6.1 billion) and "Other Industries" (consisting chiefly of services and distribution facilities) accounted for the remainder.

Most critics of the multinational firm have recognized the dependence of the United States economy on imported petroleum and certain ores and have thus focused their attention on manufacturing investments abroad.

Since "other industries" generally pose no threat to U. S. manufacturing employment and may in fact provide distribution facilities for U. S.-made products, they too have been generally exempt from criticism.

The value of U. S. manufacturing investments abroad increased at an annual rate of 11.1 percent from 1960 to 1970 (Table 1), roughly equivalent to the average annual growth in the gross national products (about 10 percent) of the major industrial countries outside the United States where most investment took place. As of December, 1970, the major part of U. S. direct manufacturing investment abroad was in Western Europe (42 percent of the total) and Canada (31 percent) with Latin America accounting for 14 percent of the total. (Table 4.) Significantly, with the exception of investments in Latin America, only 2.7 percent of all U. S. foreign direct investments were in those so-called "low wage" areas--Korea, Taiwan, Hong Kong, Southeast Asia, and nearly all of Africa and the Middle East .

The book value of foreign investments by survey respondents amounted to $14.4 billion as of the close of 1970, equivalent to 45 percent of total U. S. manufacturing investments abroad. (Table 3.) The foreign investments of respondents who manufacture motor vehicle and nonelectrical machinery, $4.3 billion and $3.0 billion respectively, accounted for slightly over half of the reported totals of such investments. Respondents in the chemical industry accounted for 12 percent of such investments,

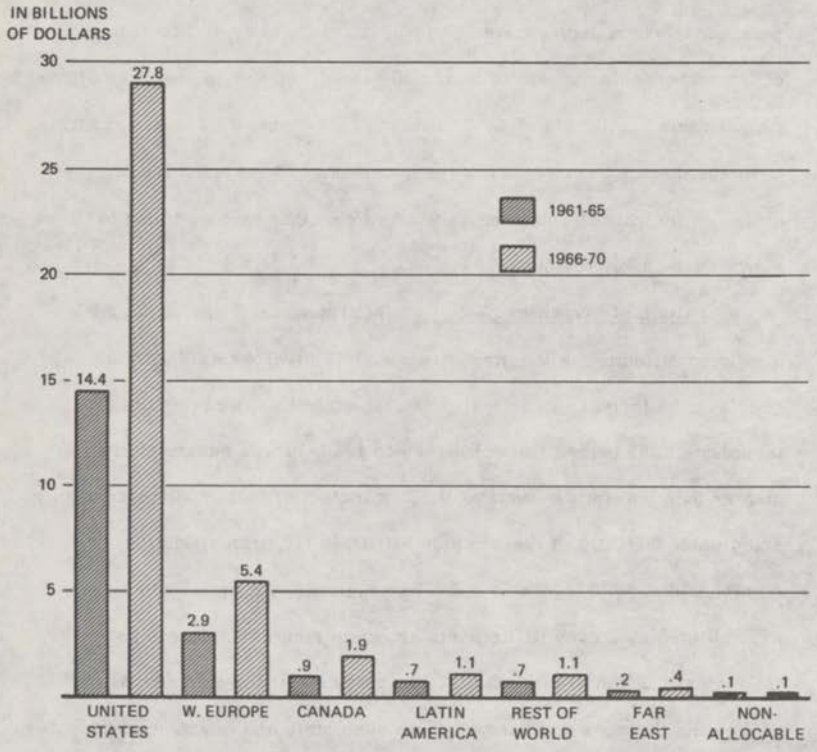
while the food, paper, primary and fabricated metals, and miscellaneous manufacturing industry groups each accounted for approximately 7 percent of the total. With the exception of the chemical and electrical machinery industries, where survey coverage is low, the industry distribution of the respondents appears to be broadly representative of the international manufacturing activities of U. S. industry. For industries where survey coverage does not assure an adequate measure of foreign affiliate activity, analysis of supplementary data from other sources tends to corroborate survey results.

Pattern of Investment Activity. Multinational corporations made a major contribution to the growth in domestic investments during the 1960's. The increase in domestic capital expenditures of the survey respondents (93 percent) from 1961-65 to 1966-70 was substantially greater than that for the average U. S. manufacturing firm (71 percent) and greater than that of their foreign affiliates (77 percent) during the corresponding period. (Table 6.) The geographic pattern of capital expenditures by survey participants shown in Figure I indicates both the high proportion of total capital expenditure devoted to the home market and the more rapid growth (both absolutely and relatively) in domestic capital expenditures.

Six of the ten industry groups reported that their domestic expenditures for plant and equipment rose more rapidly than their

FIGURE I

CAPITAL EXPENDITURES BY U.S.-BASED MULTINATIONAL FIRMS AND THEIR FOREIGN AFFILIATES, BY GEOGRAPHICAL AREA, 1961-65 AND 1966-70



Source: ECAT Survey, Table 11.

foreign expenditures from 1961-65 to 1966-70. (Table 6.) Generally speaking, these six industries fell in the category of "mature" overseas investors. The majority of the firms in these industries (motor vehicles, chemicals, paper, nonferrous metals, food and electrical machinery) have longstanding overseas operations, and enjoyed "normal" growth patterns which were determined primarily by their product mix and the growth rates of the economies where their manufacturing facilities were located.

Four industries expanded their foreign investments more rapidly (in percentage terms) than their domestic investments. The growth rate of their domestic investments, however, substantially exceeded that of the average manufacturing industry. The two industries (aircraft and instruments) that expanded their foreign investments most rapidly also reported the most rapid growth in domestic investment. The faster rate of growth in foreign investments for these four industry categories is largely attributable to the following factors:

1. The growth rates for some firms and industries, particularly aircraft and instruments and related products, were from inconsequential base levels. In the aircraft industry, for example, despite a rapid growth in plant and equipment expenditures outside the United States, such expenditures

were equivalent to only 3.3 percent of domestic expenditures during the 1966-70 period.

2. Foreign investments in the rapid growth industries (i.e., instruments and nonelectrical machinery) were heavily concentrated in the national market reporting the greatest economic growth--Western Europe.

3. The product mix of these particular industries--nonelectrical machinery (including computers) and instruments--benefited greatly from the abnormally high level of manufacturing investment in Europe in the latter half of the 1960's.

Fixed Assets. Fixed asset levels provide an alternative measure of the growth in foreign and domestic manufacturing activities. Comparisons based on this measure, however, are seriously distorted by the low absolute level of foreign asset holdings of many survey respondents in 1960. The growth in the fixed asset holdings of survey respondents and their foreign affiliates during the 1960's is shown in the following tabulation:

Change in Fixed Assets--

	U.S.-Based Facilities		Foreign Affiliates	
Period	Increase in Net Assets (million $)	Average Annual Growth Rate	Increase in Net Assets (million $)	Average Annual Growth Rate
1960 to 1965	5,779	6.6%	3,850	17.1%
1965 to 1970	12,983	10.1%	6,048	13.2%
1960 to 1970	18,762	8.4%	9,898	15.1%

Source: ECAT Survey

The preceding tabulation highlights four aspects of the pattern of growth in the investments of U.S. based multinational corporations: First, the absolute growth in domestic fixed assets was nearly double that abroad; second, the most rapid expansion (in percentage terms) in foreign investment occurred in the early 1960's, as increasing numbers of U. S. manufacturers recognized a growth potential abroad, particularly in the European Economic Community, which could be fully realized only through direct investment; third, as the new manufacturing affiliates abroad emerged from their early stage, the rate of investment growth declined significantly; and fourth, the rate of growth in domestic investment accelerated sharply in the latter half of the decade.

The differences in the growth in domestic and foreign assets in the latter half of the decade are primarily attributable to diverging economic growth rates home and abroad. The average annual rate of growth in real GNP in the United States during that period was 3.2 percent compared with growth rates of 4.7 percent for Canada and 5.0 percent for the continental European industrial countries. These two areas, it will be remembered, accounted for the preponderant part of overseas direct investment in manufacturing affiliates. (Table 11.) The growth in Western European economies, moreover, was heavily concentrated in the manufacturing sector, particularly in capital goods and other high technology industries where American firms have the

competitive edge. Thus the industry and geographic pattern of economic growth abroad has been particularly favorable to a high rate of foreign investment growth.

Fixed assets of foreign affiliates accounted for 28 percent of the total fixed assets of the survey respondents in 1970.

Major Determinants of Foreign Investment Decisions. In the judgment of the survey respondents, "market demands" were clearly the decisive factor in the majority of their foreign investment decisions. Although the category "market demands" defies precise interpretation, it is generally construed to mean those primarily commercial factors that necessitate local production of a particular product, as distinguished from the government-imposed factors (e.g., trade restrictions and investment regulations) designed to influence trade flows or from factors which induce investments in facilities primarily engaged in production for export markets (such as raw materials availability and labor cost advantages). It was clear from the narrative responses that some firms interpreted "market demands" very broadly to include such factors as transportation costs, while others enumerated transportation costs separately under "other factors."

The overriding importance of market demands is clearly evident from the following tabulation which summarizes the survey results:

RELATIVE IMPORTANCE OF MAJOR DETERMINANTS
OF FOREIGN INVESTMENT DECISIONS

Major Determinants	Order of Significance: Most Important %	2nd Most Important %	3rd Most Important %	4th Most Important %	5th Most Important %	Negligible %
Market Demands	57	14	13	12	4	10
Trade Restrictions	20	35	31	11	2	15
Investment Regulations	11	32	21	24	27	29
Labor Cost Advantages	5	9	28	48	48	39
Other	7	10	6	5	19	7
	100	100	100	100	100	100
Memo: Responses	329	329	263	187	48	216

Source: ECAT Survey Tables 28 and 29.

The threat of local competition, which was usually considered a "market demand," was the most frequently cited specific factor motivating specific investment decisions. The judgment of the survey respondents was further confirmed by in-depth case studies of nine major industries by Robert Stobaugh and Associates for the U. S. Department of Commerce. After an intensive investigation of the circumstances surrounding a specific foreign investment decision in each industry, the authors concluded:

> "Although U. S. firms have a preference for operating in the United States, in most cases of U. S. foreign direct investment, U. S. firms do not have the alternative of continuing to serve the relevant market--either in the U. S. or abroad--from their U. S. plants. If U. S. firms tried to continue operating only in the U.S., they would lose their markets to foreign firms, usually large enterprises from Europe and Japan."

The nature of market demands obviously differs materially from industry to industry. High transportation costs relative to product values necessitated local production for the majority of products of the paper (e.g., packaging materials), fabricated metal products (e.g., empty containers), consumer chemical products (e.g., detergents), and food products industries. In the case of food products, product perishability was a further consideration. For motor vehicles manufacturers and their suppliers, differing income levels, road conditions, and transportation requirements necessitated the production of different models for different geographic areas, while the combination of governmental interference and economic considerations helped to assure local production in most significant markets.

In the capital goods industries, which included a majority of the respondents in the electrical and nonelectrical machinery and instruments and related products industries, rapidly growing demand for products tailored to the needs of foreign manufacturers required the establishment of local production facilities. Moreover, engineering,

servicing, and distribution requirements associated with the sale of technologically-advanced capital goods frequently required the establishment of extensive support operations which could not be maintained on the basis of export volume from the United States.

As previously indicated, survey respondents were in basic agreement that market demands were the major determinant of their foreign investment decisions. Market demands were most frequently ranked (57 percent of the total responses) as the most important factor in every geographic area and by every industry group. (Tables 28, 29 and 30.) Trade restrictions were ranked as the most important factor in 20 percent of the responses followed by investment regulations (11 percent), "other factors"(7 percent), and labor cost advantages (5 percent). Trade restrictions were considered the second most important factor in every area except Latin America where investment regulations (e.g., local content requirements) were an important, although not the decisive factor. Labor cost advantages were consistently ranked as a relatively unimportant consideration in overseas investment decisions.

The significance of wage rates in foreign investment decisions should not be minimized or distorted. The cost structure of a firm is, of course, determined by many factors including materials costs, capital

equipment costs, transportation costs, labor costs and labor productivity. Lower unit wage costs abroad are often offset by higher costs for other factors of production. Nonetheless, total labor costs (including those embodied in the capital goods, raw materials, and intermediate materials used by manufacturers), obviously comprise an important and in some industries the major part of the total cost of a manufactured product. Manufacturers obviously cannot be indifferent to labor costs, any more than they can neglect other elements of cost such as raw materials, energy, and taxes. In the majority of instances the relatively low ranking of "labor cost advantages" as a determinant of foreign investment was clearly predicated on the fact that the foreign investment decisions were made for the purpose of serving local markets in competition with local suppliers confronted with essentially the same pattern of local wage rates. Moreover, even in those instances where direct investment abroad has replaced U. S. exports, the investment decision was usually based on the conviction that local production was an unavoidable alternative--either as a result of, or in anticipation of, the investment initiatives by local competitors.

In such cases the critical determinant becomes the perceived advantages which will be gained through preemptive investment or, alternatively, the necessity of protecting market shares threatened by the preemptive investments of others. In either event, wage rate differentials

generally involved only the minor variations occurring within national labor markets, (or in the case of continental Europe between contiguous national markets) and thus became a relatively minor consideration when contrasted with the broader determinants of investment behavior such as market penetration, product improvement, and productivity growth.

Surprisingly, in the limited number of instances where labor cost advantages were ranked as the most important factor in foreign investment decisions, there was no discernible geographic pattern of labor cost advantage. In fact, labor cost advantages were most frequently cited (7 percent of total responses) as the decisive factor in Western Europe which has clearly become a "high wage" supplier compared with Latin America, Africa, the Middle East, and most of Asia. A substantial proportion of the respondents specifically noted that the advantages of the lower wage rates in the poorer areas are usually offset by lower labor productivity and higher overhead costs.

One significant exception involves the limited number of plants (chiefly in the electronics industry) established abroad (mainly in Mexico and the Far East) for the purpose of assembling U.S.-made components into finished products for export to the United States and world markets. In these instances, labor cost advantages were a major factor in the foreign investment decision. It is worth noting, however, that, in the judgment of the survey respondents these investments apparently had a positive effect on U. S. employment levels.

In this connection, the Tariff Commission in its study of the operation of Items 806.30 and 807.00 of the Tariff Schedules of the United States, which permit duty-free entry of certain U. S. parts and components assembled abroad, concluded that the repeal of these provisions would not materially reduce the level of U. S. imports but it would sharply curtail U. S. exports of parts and components and thus result in a net loss of jobs in the United States. Survey respondents confirmed that, without their investments in foreign assembly plants, which often create U. S. jobs both in parts manufacture and in final assembly in the United States, they would have been forced to abandon certain markets entirely to foreign competitors.

In several industries (chemicals, paper, non-ferrous metals and food products), the availability of raw materials was the most important consideration in foreign investment decisions in some areas. Raw materials availability was the most frequently enumerated factor in the "other factors" category. In some instances firms noted that the most important factor in their foreign investment decision was the prospect for creating captive markets for parts and components exported from the United States.

The Effect of Foreign Investments on Domestic Investments. The foreign direct investments of the survey respondents have contributed to a net increase in domestic investments. One-third of the respondents

reported that their foreign investment programs had resulted in a net increase in domestic investments. These firms reporting a positive correlation between foreign and domestic investment tended to be among the largest domestic investors (and exporters). Only five firms (7 percent of the respondents) reported that foreign investments had adversely affected their domestic investment programs. The other participants reported that their foreign investment programs had had little if any effect on their level of domestic investments.

Virtually all of those firms which reported that foreign investments had resulted in an increase in their domestic investment programs attributed the increase to the enlarged exports made possible by those foreign investments. Conversely, four of the five firms that reported an inverse relationship between domestic and foreign investment cited the fact that their foreign investments may have adversely affected potential export growth. (The relationship between foreign investments and U. S. merchandise trade is explored more fully in the "merchandise trade balance" section.)

In evaluating the effects of their foreign investments, very few firms made any reference to the impact of such investments on the availability of funds for their domestic investment programs. All but one of the respondents that specifically referred to financial factors indicated that their foreign investment programs were independent of their domestic investment programs, and therefore had had no effect on their domestic

investment decisions. In most instances, firms noted that their foreign investment programs were funded entirely from foreign funds (i.e., either the retained earnings of the foreign affiliate or from its local borrowings). Information compiled by the Department of Commerce strongly support the conclusion that the foreign affiliates of most firms are financially self sufficient. In 1968, the most recent year for which data are available, only 3.4 percent of all funds spent by foreign manufacturing affiliates (equivalent to 7.6 percent of their plant and equipment expenditures) were obtained from the United States (Table 40.)

Only one firm noted that its foreign investments had reduced the funds available for domestic expansion. This firm also indicated, however, that as its foreign investments begin to generate a positive cash flow in the early 1970's, they are expected to make possible a higher level of domestic investment than would otherwise be possible.

Domestic and Foreign Sales

Domestic and foreign sales of the survey respondents increased rapidly during the 1960's. (Table 18.) Aggregate U. S. sales of the survey respondents increased by 99 percent from 1960 to 1970 compared with a 71 percent increase in the total value of U. S. shipments of manufactured products. In all but one of the industry[1/] groups, the aggregate

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1/ Survey coverage for this industry group, primary and fabricated metal products, was relatively low--about 5 percent.

sales growth of survey respondents outpaced the average annual growth in shipments of manufactured goods reported by the Department of Commerce. (Tables 18 and 35.)

The annual percentage growth in sales of foreign affiliates from 1960 to 1970 (14.0 percent) substantially exceeded that of domestic shipments (6.9 percent) for every industry group, reflecting in part the comparatively low base level in the initial year of the survey. In absolute terms, by contrast, domestic sales increased more rapidly than foreign sales for every industry group. One of the significant facts established by this survey is that extraordinary growth in sales of foreign affiliates has contributed to the growth in domestic sales.

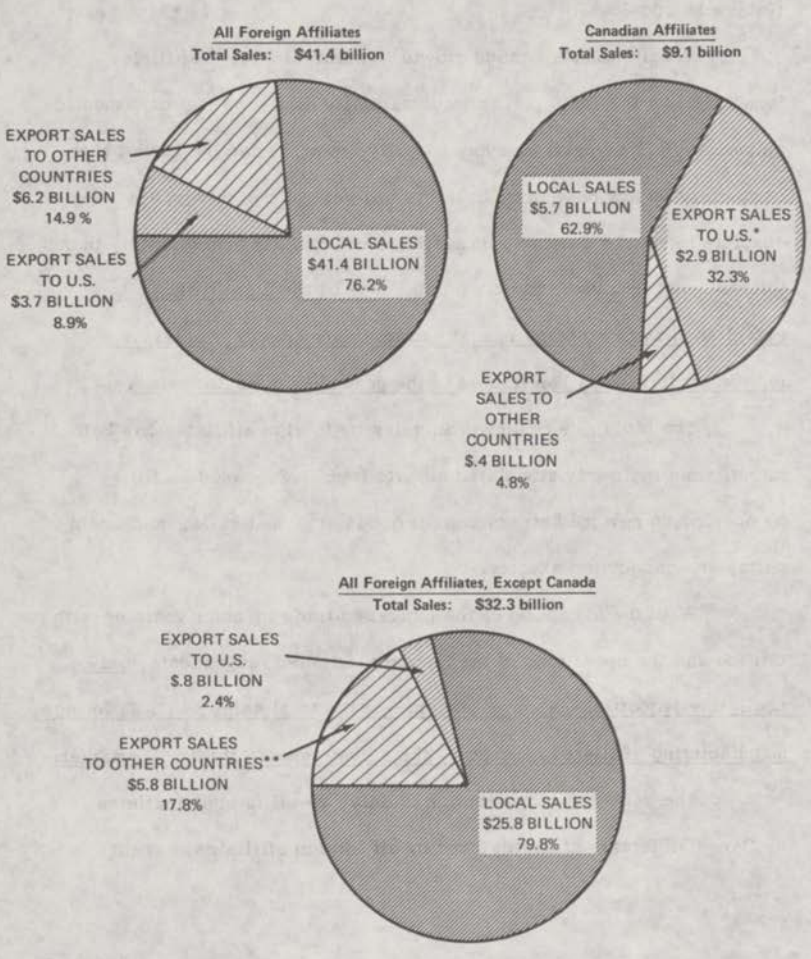
The rapid rate of growth in sales by foreign affiliates has both directly and indirectly stimulated exports from U.S.-based facilities by opening up new markets for capital goods, raw materials, component parts, and associated exports.

With the exception of the increased trade in motor vehicles with Canada and the operations of the resource-oriented respondents, only a negligible proportion--about 2 percent--of the total sales of U. S. foreign manufacturing affiliates covered by the survey entered the U. S. market.

The geographic distribution of sales by all foreign affiliates, by Canadian foreign affiliates, and by all foreign affiliates, except

FIGURE II

GEOGRAPHIC DISTRIBUTION OF SALES BY FOREIGN AFFILIATES OF RESPONDENT FIRMS, 1970



* Consists preponderantly of automobiles entered duty free under the J. S. Canadian Auto Agreement and raw materials (e.g., pulp and newsprint)

** Consists chiefly of Intra-EEC and Intra-EFTA trade

Source: ECAT Survey, Table 19.

Canadian are shown in Figure II. In the case of Canada free trade in motor vehicles and the historical U. S. dependence on Canadian pulp and newsprint largely explain the relatively high proportion (i.e., one-third) of total affiliate sales entering the United States. Several firms in other industries are also heavily dependent on Canadian raw materials.

When the sales of non-Canadian affiliates are considered, 79.8 percent are in local markets and 17.8 percent are in third country markets and only 2.4 percent enter the United States market. (Table 19.) Sales to third country markets consisted chiefly of tariff-free transactions within the European Economic Community and the European Free Trade Asssociation. (See Tables 20 through 27.) A very substantial proportion of parent imports from non-Canadian affiliates also consisted of raw materials including coffee, bauxite, and other food and chemical raw materials. In the case of these resource-oriented companies, U.S. purchases from foreign affiliates would either be replaced by purchases from other foreign suppliers or aggregate U. S. sales would be reduced because of the non-availability of the requisite raw materials.

The relatively rapid rate of growth in sales by U. S. foreign affiliates is attributable to two factors. First, the major foreign markets grew more rapidly than our domestic market. Secondly, participation in these rapidly growing markets increasingly demanded a local presence. Those factors which heightened the need for a local presence included:

1 The requirements for growing sales, distribution and service organizations to facilitate merchandise exports from the United States.

2. The need to maintain competitive positions in foreign markets for products previously exported from the United States in the face of competition from local suppliers.

3. The formation of two large tariff-free markets (EEC and EFTA) created an unusually large number of new opportunities for efficient operations in Europe based on manufacturing techniques and economies of scale which previously were not feasible. The organizational experience of many American firms in coping with large markets together with their technological leadership provided an unusual stimulus to foreign investment.

4. The necessity of establishing foreign manufacturing affiliates to satisfy the local content requirements of some foreign governments--particularly those of developing countries.

5. The necessity to commence production abroad to overcome the actual or threatened imposition of new tariffs or nontariff barriers. This situation, too, is most common with respect to developing countries which are seeking to protect "infant" industries and conserve scarce foreign exchange.

6. The practical commercial necessity, in some industries,

of offering complete product lines has led to the need for foreign production--to complement U. S. exports--in offering complete lines abroad.

7. In some industries, U.S.-produced goods are simply not competitive in foreign markets. Local production then becomes the only means by which American companies can benefit from their marketing, technological, or managerial expertise.

8. Similarly, in certain sectors (e.g., consumer electronics) imported components (e.g., tuners) may be used to secure the competitive viability of the finished U. S. products (e.g., TV receivers) against similar products which are exclusively of foreign origin (e.g., Japanese TV receivers).

In summary, our survey has revealed that, notwithstanding an extraordinary growth in their foreign affiliate sales, U.S.-based multinational corporations have increased their domestic sales more rapidly than the average manufacturing corporations and, in most cases, more rapidly than the domestically-oriented firms in their own industries. The growth in sales by foreign affiliates is attributable to the rate and pattern of foreign economic growth and their ability to participate in that growth. Moreover, in the judgment of the majority of the survey respondents, the growth in foreign manufacturing activities has actually expanded the sales of U. S.-based facilities.

Domestic and Foreign Employment

From 1960 to 1970 the survey respondents increased their domestic employment by nearly 900 thousand persons. The rate of increase in their domestic employment during that period, 3.3 percent per year, was substantially greater than that of the average U. S. manufacturing firm, 1.4 percent. (Table 12.) The growth in foreign employment of American-owned companies has not been at the "expense" of the U. S. employees of multinational firms. The information developed in this study clearly indicates that, contrary to the frequent criticism that multinational corporations "export" U. S. jobs by transferring manufacturing activities from their domestic facilities to those of their foreign affiliates, the growth in the international activities of U. S. corporations has actually created new employment opportunities for American workers.

Obviously, the rising volume of international sales and investment has created new employment opportunities abroad. Aggregate employment by foreign affiliates of U. S. multinational corporations rose at an annual rate of 7.7 percent from 820 thousand persons in 1960 to 1,726 thousand persons in 1970.

As in the case of sales, multinational corporations, in all but one of the ten industry groups, reported a higher rate of domestic employment growth than non-respondents in their respective industries. (Tables 12 and

14.) Moreover, because of the export orientation of most foreign direct investors and the dependence of a substantial volume of their exports on the manufacturing and support activities of foreign affiliates, a significant proportion of the growth in domestic employment is a direct result of the foreign direct investment activities of the respondents. The growth in the merchandise trade surplus of the survey respondents from 1960 to 1970 has helped to create an estimated 300 thousand jobs in the United States economy.

Foreign direct investments also expand U. S. employment in another way. After intensive study of the activities of 187 large U. S. multinational corporations, Raymond Vernon has estimated that foreign affiliate activities now support about 250 thousand jobs in central administrative offices and research and development laboratories in the United States.

A significant proportion of the growth in domestic and foreign employment was due to acquisitions. The proportion of employment growth due to acquisitions and to other factors is shown in Table 13. Growth due to other factors is understated since allowance is not made for cases where firms sold off operating plants or divisions. The number of employees lost through such sales lowers the "normal" rate of employment growth information on such employment "losses" though divestiture was not obtained from respondents. Nonetheless, even the understated annual

rate of "normal" employment growth, 2.0 percent, significantly exceeded that of the average manufacturing industry, 1.4 percent. Moreover, those industries that expanded their foreign investments and employment most rapidly (instruments and nonelectrical machinery) also made the greatest proportionate contributions to domestic employment growth.

A frequent assertion about multinational companies is that they have an unlimited option of producing at home or abroad and that this option undermines the position of U. S. labor in collective bargaining negotiations. The information developed in our survey has indicated:

1. That the vast majority of overseas investments are made for the purpose of satisfying local markets (see Tables 28, 29, and 30) that could not have been served by exports from the United States,
2. That labor cost considerations have consistently played a subordinate role in these decisions (Table 29), and
3. That very little production by American affiliates enters the United States. (Table 19.)

Moreover, industry-wage structure and major collective bargaining settlements in recent years show greater than average gains for U. S. labor in industries where multinational companies are concentrated and whose exports are high. Average annual first-year increases granted in wage settlements in major collective bargaining agreements (which cover the

majority of the employees of the survey respondents) rose steadily from 2.0 percent in 1964 to 7.5 percent in 1970. (Table 15.)

According to the U. S. Department of Labor, the average hourly wages of the four U. S. industries with the highest level of overseas investment (petroleum, chemicals, transportation equipment, and non-electrical machinery) are among the six highest paid U. S. manufacturing industries.[1/] (Table 16.)

By contrast, the three lowest wage U. S. industries (textiles, apparel, and leather and leather products) account for only a negligible proportion of U. S. direct investments abroad. These three industries collectively account for only about one percent of U. S. foreign direct manufacturing investments.[2/]

Merchandise Trade Balance

The growing merchandise trade surplus of the survey respondents is convincing evidence of the favorable contribution these firms make to U. S. economic growth. Today, these companies serve as "models" for other American companies being urged by the Government to increase exports. Although the growth in their aggregate merchandise trade surplus from $3.2 billion in 1960, to $4.7 billion in 1965, to $6.6 billion in

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1/ Primary metal products and printing and publishing, a high-skill industry with a low level of international trade, ranked third and fourth highest respectively in terms of average hourly wages.

2/ Estimated on the basis of reported earnings. See "U.S. Direct Investments Abroad," 1966, Part I, Balance of Payments Data, OBE-SUP 71-01, U.S. Department of Commerce, December, 1970. Table 5-B.

1970, speaks for itself, careful examination of the survey data reveals certain trends and relationships which help to illuminate the positive role of the multinational corporation in the U. S. economy.

First, the approximate doubling of the merchandise trade surplus of the survey respondents stands in marked contrast to the overall U.S. merchandise trade balance in manufactured products which declined from $6.2 billion in 1960 to $3.1 billion in 1970. Without the trade of the respondents, the U. S. merchandise trade surplus in manufactured products in 1970 would have been a deficit of substantial proportions. (See Figure III.)

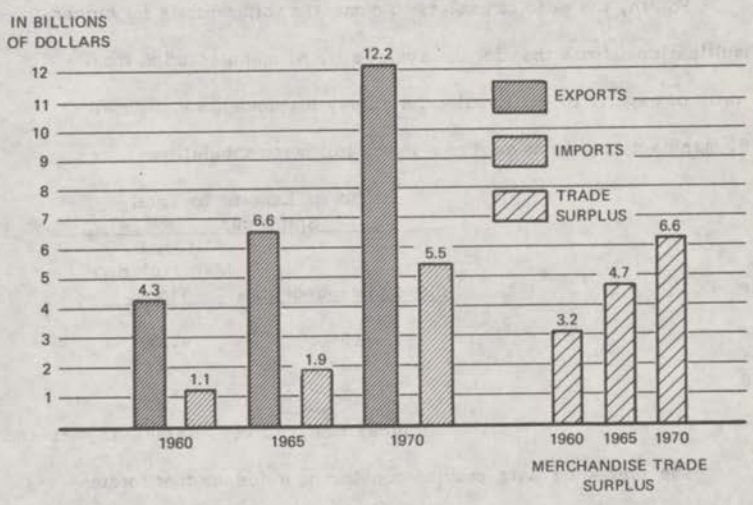
Second, exports of survey respondents have accounted for a steadily increasing proportion of all U. S. exports of manufactured products. The respondents' share of total manufactured goods exports rose from 27.5 percent in 1960 to 34.6 percent in 1970. If the respondents' exports of motor vehicles and parts, which are largely attributable to the U.S.-Canadian Auto Agreement, are excluded, the respondents' share of total manufactured goods exports still rises 20.7 percent in 1960 to 24.6 percent in 1970.

Third, the respondents' share of U. S. merchandise imports also increased from 1960 to 1970, but that increase was almost wholly attributable to the increase in imports of motor vehicles from Canada under the U.S.-Canadian Automobile Agreement. If the respondents'

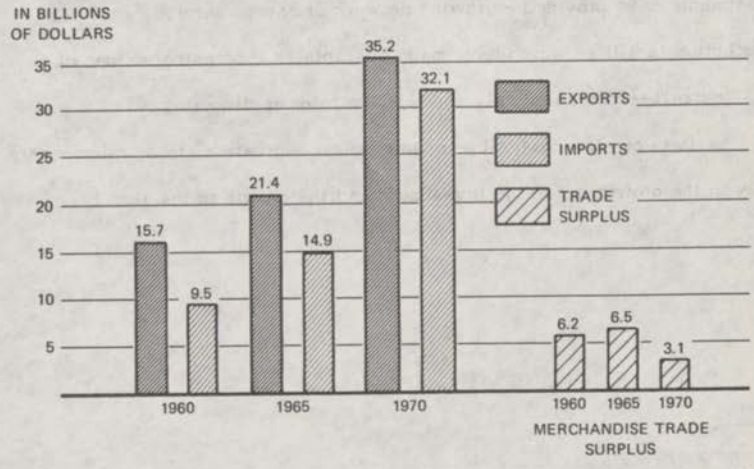
FIGURE III

EXPORTS, IMPORTS AND MERCHANDISE TRADE SURPLUS 1960, 1965 AND 1970

SURVEY RESPONDENTS



TOTAL U.S. TRADE IN MANUFACTURED PRODUCTS



Source: ECAT Survey, Table 31 (for Survey Respondents) and Table 32 (for total U.S. trade in all manufactured products).

imports of motor vehicles are excluded from consideration, the ratio of imports by survey participants to total imports of manufactured goods declines from 10.8 percent in 1960 to 8.0 percent in 1970. (Table 31 .)

Fourth, the ratio of exports to domestic shipments is far higher for multinational firms than for the average U. S. manufacturing firm. The ratio of exports to U. S. sales for survey respondents and for all U. S. manufacturing firms are shown in the following tabulation:

	Ratio of Exports to Total Shipments	
Year	Survey Respondents	All U. S. Manufacturing Firms
1960	7.6%	4.2%
1965	7.9%	4.3%
1970	10.8%	5.4%

Source: ECAT Survey, Tables 18, 31 and 34

The preceding data provide convincing evidence that foreign manufacturing activities have not replaced the exports of U. S.-based multinational corporations. On the contrary, they indicate that foreign investments have provided a growing network of sales, service, and distribution facilities which have made possible an increasing volume of U. S. exports--both absolutely and relative to domestic sales.

Data on an industry-by-industry basis indicate a strong relationship between the growth in foreign investment and the growth in the U. S.

merchandise trade surplus. For example, the industry that expanded its foreign investments most rapidly, 1/ the instruments and related products industry, also achieved the greatest proportionate growth in its merchandise trade surplus. Similarly, the nonelectrical machinery industry, which is now the largest overseas investor (in terms of annual plant and equipment expenditures) achieved a rapid growth in its merchandise trade surplus and now accounts for one-third of the total surplus reported by survey participants.

Moreover, the experience of the survey respondents indicates a direct relationship between foreign investments and export growth. Twenty-four percent of the reporting firms indicated that their exports would be much smaller if they had no foreign investments and 21 percent indicated that exports would be somewhat smaller under those circumstances. (Table 43.) The firms which reported that their foreign investments increased their export volume collectively accounted for roughly 75 percent of total exports of the survey respondents. By contrast, only 12 percent of the firms felt their exports might be somewhat larger in the absence of foreign investments, and 42 percent indicated their export levels would be approximately unchanged. Not one firm estimated that its exports would be much larger if it had no foreign investments.

1/ Excluding the aircraft industry where foreign investments continue to be nominal.

According to the survey, foreign investments have stimulated U. S. exports in several ways:

1. They have made possible the exportation of intermediate parts and components.
2. They have enlarged the demand for U. S. capital goods.
3. They have expanded the market for complementary exports.
4. They have stimulated anticipatory exports (products exported while developing a foreign market to the point required for start-up) and fill-in exports (products exported at growth stage in foreign markets where local demand exceeds local capacity but does not warrant major expansion.)
5. They have helped to popularize company trademarks and brandnames and thereby stimulated the demand for U. S. exports to fill out the product lines of foreign affiliates.
6. They support U. S. exports by providing expanded service and distribution networks which could not be maintained solely on the basis of U. S. export volume. In the technologically advanced industries, these services are frequently a prerequisite to any significant U. S. export volume.
7. They contribute to higher incomes abroad, thus increasing the demand for luxury goods and technologically advanced products in which the United States has a comparative advantage (e.g., scientific instruments and aircraft).

8. Finally, and very important, the local presence creates an awareness of market opportunities for U. S. exports which would otherwise go unnoticed.

Although the relative importance of each of the foregoing factors is impossible to ascertain, a U. S. Department of Commerce study of the exports of U. S. firms to their foreign affiliates provides an additional perspective on this question. This survey indicated that 320 U. S. parent corporations exported $4.4 billion worth of merchandise to their foreign affiliates in 1965. The percentage distribution of these exports was as follows:

Type or Category of Exports	% of Total Exports to Affiliates
Exports for Further Processing or Assembly	33.9
Exports for Resale without Further Manufacture	56.0
Capital Equipment	5.9
Other Exports & Unallocated	4.2

Source: U. S. Department of Commerce, Survey of Current Business, May,1969.

Thus, the foregoing data indicate that roughly 40 percent of total exports to affiliates consisted of items which were directly dependent upon the manufacturing operations of those affiliates.

The merchandise imports of multinational corporations increased substantially during the 1960's. Sixty-five percent of the total increase in imports, however, consisted of motor vehicles and parts, chiefly under the U. S.-Canadian Automobile Agreement. Roughly one-half of the remaining imports (including nearly all of the imports of the paper and food industries and the preponderant part of the imports of the chemical and primary and fabricated metal products industries) consisted of raw materials. Thus, the increase in imports of manufactured products, other than automobiles, from 1960 to 1970 amounted to less than $1 billion compared with an increase in exports (other than automobiles) of $5.4 billion. It is not surprising, therefore, that 71 percent of the survey respondents indicated that their foreign investments had had virtually no effect on the share of the U. S. market supplied by imports. The remaining manufacturers were about evenly divided, with half indicating that their foreign investment had tended to reduce the import share of the U. S. market (mainly through weakening international competitors by challenging them in their home markets and through pre-emptive investments in high technology industries), while the other half indicated their investments tended to have the opposite result.

Contribution to U. S. Balance of Payments

The Department of Commerce credits the non-trade transactions

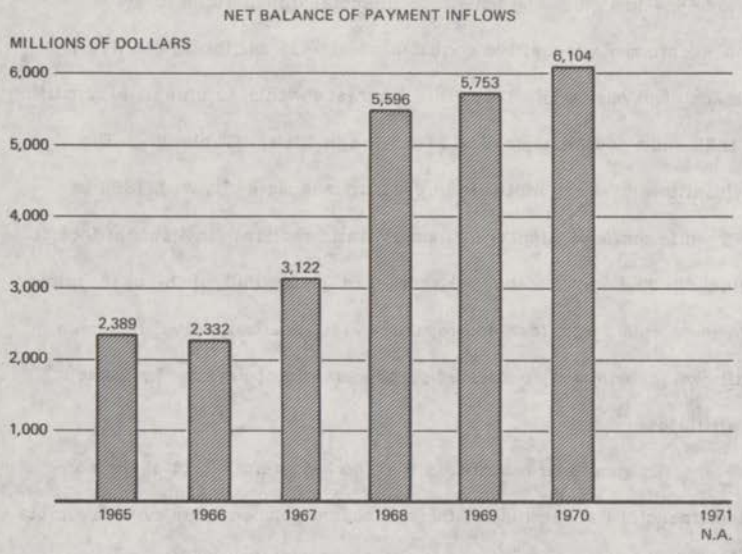
associated with foreign direct investments with making a cumulative net contribution to the U. S. balance of payments of $25 billion during the period 1964 to 1970. The non-trade financial transactions of survey respondents made a positive contribution of $615 million to the U. S. balance of payments in 1970. This contrasts with a surplus of $116 million in 1965 and a total deficit of $230 million in 1960. (Table 39.) The cash inflows of every industry group increased markedly from 1960 to 1970 while outflows displayed a more erratic pattern. Investment income (dividends and branch earnings) accounted for the bulk of the cash inflow though revenues from fees and royalties also rose markedly. Net cash outflows, by contrast, consisted preponderantly of net new investment in affiliates.

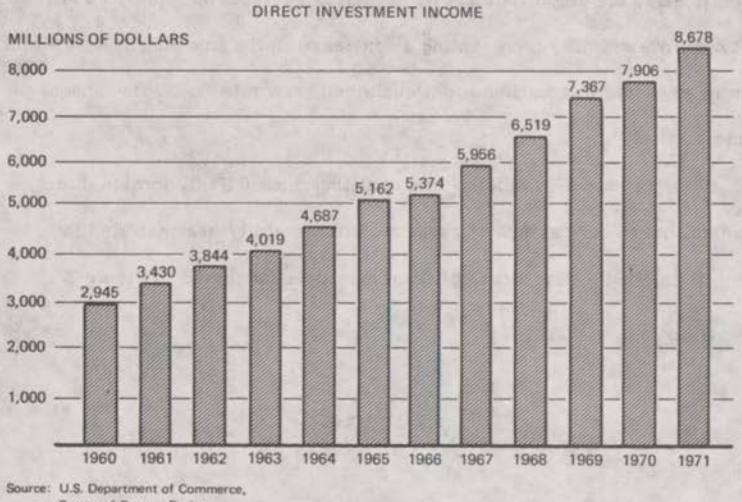
It should be recognized that the long-term effect of the non-trade financial transactions of the respondent companies is more favorable than that revealed by their net balance-of-payments contributions. Specifically, the preponderant part of their cash outflows consisted of net new investments, representing an increase in the investment base which can be expected to contribute to a sustained growth in U. S. investment income.

The short- and long-term contributions of U. S. foreign direct investments to our balance of payments are forcefully demonstrated by the official U. S. Department of Commerce data presented in Figure IV.

FIGURE IV

DIRECT INVESTMENT INCOME AND NET BALANCE OF PAYMENT INFLOWS RELATED TO FOREIGN DIRECT INVESTMENT (Except Merchandise Trade)





Source: U.S. Department of Commerce, Survey of Current Business, October and December, 1971.

The top half of the chart indicates that the net balance of payment inflows identifiable with U. S. foreign direct investments (exclusive of trade) more than doubled from $2.4 billion in 1965 to $6.1 billion in 1970. Moreover, the stream of earnings attributable to our expanding investment base has grown steadily from $2.9 billion in 1960 to $8.7 billion in 1970.

The increase in the merchandise trade surplus of multinational corporations combined with the increase in net cash inflows arising from direct investments resulted in an increase in the overall balance of payments contributions of these firms from $2.9 billion in 1960 to $7.3 billion in 1970. (Table 41.) In the latter year, the international activities of every industry group made a positive contribution to the U. S. balance of payments.

Role of Technology Transfer

Technological change has long been viewed as a major instrument of economic progress. As the National Commission on Technology, Automation, and Economic Progress reported to the President and the Congress in the mid-1960's:

> "The vast majority of people quite rightly have accepted technological change as beneficial. They recognize that it has led to better working conditions by eliminating many, perhaps most, dirty, menial, and servile jobs; that it has made possible the shortening of working hours and the increase in leisure; that it has provided a growing abundance of goods and a continuous flow of improved and new products; that it has provided new interests and new experience for people and thus added to the zest for life."

Similarly, the view that the international exchange of technology is both necessary and beneficial is widely held among businessmen, economists, and government policy makers. For example, a government-sponsored panel on the International Transfer of Technology recently reported that:

> "If we are going to solve the major problems facing humanity--overpopulation, air pollution, water pollution, and many others--we need a vast generation and exchange of new technology...Practically all economists agree that a free flow of technology contributes in important ways to a rising standard of living both in this country and elsewhere...The exchange of technology among economically developed nations and its application to research, production, and management are increasingly seen as vital elements in the development and maintenance of buoyant national economies."

The optimistic views of economists concerning the benefits of technology transfer are not, however, shared by everyone. There are allegations that the "export" of U. S. technology by U. S. firms has reduced the potential for U. S. merchandise exports of high-technology products and has contributed to intensified import competition in the U. S. market. Legislation has been proposed which would severely restrict the rights of U. S. firms to engage in international technological transfer.

The information developed in this analysis strongly supports the prevalent view that both the United States and foreign economies benefit from the process of technology transfer. It shows a significant dependence of U. S. firms on foreign technology and indicates that the transfer of U. S. technology abroad has actually had a positive effect on U. S. exports.

A clear majority of survey respondents have participated in the international exchange of technology both as donors and recipients. (Table 45.) Eighty-five percent of the survey respondents made at least some of their manufacturing technology available to foreign firms while 69 percent obtained technology from abroad. Most respondents were agreed that in the majority of instances the exchange of technology had little if any effect on U. S. merchandise trade. In several instances, however, firms indicated that the granting of their technology through licensing had permitted them to export parts, components or capital goods to markets which had proved otherwise impenetrable. In two industries survey respondents indicated that imported technology had enabled them to hold or regain a significant segment of the U. S. market from import competition.

The generally minimal effect of technology transfers on trade is largely explained by the fact that the licensing of technology appears to be regarded by most firms as a "third-best" alternative--when neither exports nor direct investments appear practicable. The relatively greater trade benefits realized by U. S. manufacturers through the licensing of foreign technology may be explained in part by the fact that a smaller proportion of foreign firms have the resources to exploit their technological advantages through direct investment in the U. S. market, while nearly all of the survey respondents have the requisite resources (financial, technological, and managerial) to capitalize on most investment opportunities.

The findings of the survey that the exchange of technology has had a positive effect on the U. S. merchandise trade balance (both through export creation and import substitution) might serve as a warning to those who seek simplistic solutions (i.e., curb the export of technology) to complex problems (unemployment). At the very least, it might serve to remind us that the U. S. dependence on foreign technology did not end with the discovery of penicillin or the invention of the computer or the jet engine (both foreign inventions) but continues to the present day with a major dependence on imported technology in numerous industries such as flat glass and the metalworking industries.

Foreign Direct Investments 1/ in the United States. The rapid growth in the international operations of U. S. multinational corporations has been paralleled by growth in foreign direct investment in the United States. Such investment increased from $6.9 billion in 1960 to $13.2 billion in 1970. (Table 5.) Foreign investment in U. S. manufacturing industries rose from $2.6 billion in 1960 to $6.1 billion in 1970, an increase of 133 percent.

During 1965-70, foreign direct investments in manufacturing facilities in the U. S. increased at approximately the same rates as U. S. direct manufacturing investment abroad. The growth in foreign

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1/ This analysis does not consider foreign-held portfolio investments in the United States, which amounted to over $25 billion at the close of 1970.

direct investment in the United States, like that of U. S. investment abroad, has typically been an outgrowth of export activities. One recent study of 40 investment decisions by foreign firms in the U. S. market indicated that 75 percent of the companies invested here to hold a market previously served by exports.[1/] Foreign investments in the United States have been heavily concentrated in specific product areas where the particular foreign firms were known (or believed) to have a superior or distinctive product (e.g., dyes, glass, steel, wire weavings, photographic base paper, etc.) In a significant proportion of the cases, the desire to achieve lower unit costs provided the major impetus for the decision to invest in the United States.

The growth in the United States activities of foreign-controlled multinational corporations offers further confirmation of the following two major findings of our survey:

1. The flow of capital, technology, and other resources associated with foreign direct investment is a two-way street. U. S. firms, for example, control only about sixty percent of the total foreign assets of all multinational

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1/ Recent Foreign Direct Manufacturing Investment in the United States, John D. Daniels, Praeger, New York, 1971.

corporations,[1] and

2. Low-wage rates are not a major factor in the majority of foreign investment decisions. In this connection, it is interesting to note that some Japanese firms are now building manufacturing plants in the U. S. market to produce products previously exported to the United States (i.e., Sony will soon produce color TV sets in the United States).

Finally, the pattern of growing foreign direct investment in the United States dramatizes the constantly changing character of the marketplace and the overriding importance of market demands in foreign investment decisions.

The growth in foreign direct investments, whether in the United States or abroad, constitutes one form of corporate response to changing market conditions.

* * *

The conclusions from the ECAT survey about the operations of multinational companies are based on sound statistics. If they clash with the judgments derived from a combination of isolated incidents and

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1/ See "International Business: How Big Is It--The Missing Measurements," Stefan H. Robock and Kenneth Simmonds, Columbia Journal of World Business, May-June, 1970, and Policy Aspects of Foreign Investment by U. S. Multinational Corporations, U.S. Department of Commerce, Bureau of International Commerce, January, 1972, Table 1.

intuition, they can stand their ground. Undoubtedly, further research by others, particularly the United States Government, will improve on these findings and further raise the level of public understanding and discussion.

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Table 1

BOOK VALUE OF U. S. DIRECT INVESTMENTS
IN MANUFACTURING AFFILIATES ABROAD, 1960-70

Year	Book Value at Year End (In Millions of Dollars)
1960	11,152
1961	11,936
1962	13,212
1963	14,937
1964	16,935
1965	19,339
1966	22,078
1967	24,172
1968	26,414
1969	29,527
1970	32,231
Average Annual Growth Rate	11.1%

Source: U. S. Department of Commerce,
Office of Business Economics.

Table 2

U. S. FOREIGN DIRECT INVESTMENTS BY MAJOR INDUSTRY GROUP, 1970

Industry Group	Book Value at Year End (million $)	Percentage Distribution
Mining & Smelting	6,137	7.8%
Petroleum	21,790	27.9%
Manufacturing	32,231	41.3%
Other Industries	17,932	23.0%
Total, All Industries	78,090	100.0%

Source: U. S. Department of Commerce, Survey of Current Business, October, 1971.

Table 3

BOOK VALUE OF INVESTMENTS IN FOREIGN MANUFACTURING AFFILIATES AS OF DECEMBER 31, 1970

	(In Millions of$)	% Distribution	% Distribution (Excluding Motor Vehicles & Parts)
Food & Kindred Products	991.1	7.0	10.0
Paper & Allied Products	1,053.0	7.3	10.5
Chemical & Allied Products	1,748.0	12.2	17.4
Primary Fabricated Metals	1,010.4	7.0	10.1
Machinery, Except Electrical	2,986.6	20.8	29.8
Machinery, Electrical	403.7	2.8	4.0
Motor Vehicles & Parts	4,337.1	30.2	NA
Aircraft & Parts Industry	42.0	0.3	0.4
Instruments & Related Products	737.5	5.1	7.4
All Other Industries	1,054.9	7.3	10.5
TOTAL	14,364.3	100.0	NA
TOTAL, Excluding Motor Vehicles & Parts	10,027.2	NA	100.0

Source: ECAT Survey.

Table 4

U. S. FOREIGN DIRECT INVESTMENT IN MANUFACTURING, BY AREA, 1970

	Book Value at Year End (million $)	Percentage Distribution
Total, All Areas	32,231	100.0%
Canada	10,050	31.2%
Other Western Hemisphere	4,604	14.3%
Western Europe	13,703	42.5%
Japan	753	2.3%
Australia, New Zealand & South Africa	2,241	7.0%
Rest of the World	880	2.7%

Source: U. S. Department of Commerce, Survey of Current Business, October, 1971.

Table 5

FOREIGN DIRECT INVESTMENTS IN THE UNITED STATES,
1960, 1965, 1969 AND 1970

	(Millions of Dollars)				Average Annual Growth Rate		
	1960	1965	1969	1970	1960-1965	1965-1970	1960-1970
Total, All Industries	6,910	8,797	11,818	13,209	4.9	8.5	6.7
Manufacturing Industries, All Countries, Total	2,611	3,478	5,344	6,105	5.9	11.9	8.4
Western Europe:							
United Kingdom	722	839	1,176	1,391	3.0	10.6	6.8
Netherlands	213	328	535	652	9.0	14.7	11.8
Switzerland	427	590	1,026	1,152	6.7	14.3	10.4
Other	249	410	793	866	10.5	16.1	13.3
Subtotal, Western Europe	1,611	2,167	3,530	4,061	6.1	13.4	9.6
Canada	932	1,219	1,644	1,831	5.5	8.5	7.0
Other Areas	68	92	170	213	6.2	18.3	12.1

SOURCE: U. S. Department of Commerce, Office of Business Economics

CUMULATIVE EXPENDITURES FOR PLANT AND EQUIPMENT, EXCLUSIVE OF THAT OBTAINED THROUGH ACQUISITION, 1961-65 AND 1966-70
(In Millions of Dollars)

Industry Group	IN THE UNITED STATES				OUTSIDE THE UNITED STATES			
	1961-65	1966-70	Absolute Change 1961-65 to 1966-70	Avg. Annual Growth Rate 1961-65 to 1966-70	1961-65	1966-70	Absolute Change 1961-65 to 1966-70	Avg. Annual Growth Rate 1961-65 to 1966-70
Food & Kindred Products	896.6	1,683.4	786.8	13.7	355.0	574.0	219.0	10.1
Paper & Allied Products	1,589.0	3,196.0	1,607.0	15.0	337.0	655.0	318.0	14.2
Chemicals & Allied Products	946.2	1,964.8	1,018.6	15.7	648.7	1,308.8	660.1	15.0
Primary & Fab. Metal Industries	1,283.8	2,196.4	912.6	11.4	410.0	681.8	271.8	10.7
Machinery, Except Electrical	1,787.2	3,641.6	1,854.4	15.3	829.2	1,726.5	897.3	15.8
Machinery, Electrical	665.5	1,782.9	1,117.4	21.6	142.3	307.5	165.2	16.7
Motor Vehicles & Parts	4,916.5	7,512.3	2,595.8	8.8	2,197.7	2,568.2	370.5	3.2
Aircraft & Parts	530.6	1,632.2	1,101.6	25.1	14.0	54.2	40.2	31.1
Instruments & Related Products	710.9	2,065.9	1,355.0	23.8	202.4	1,076.3	873.9	39.7
All Other Industries	1,075.4	2,121.3	1,045.9	14.5	451.9	948.0	496.1	16.0
TOTAL, All Respondents	14,401.7	27,796.8	13,395.1	14.1	5,588.2	9,900.3	4,312.1	12.1
TOTAL, All Manufacturing Industries (Except Petroleum)[1]	69,340.0	118,560.0	49,220.0	11.3	12,966.0	24,799.0	11,833.0	13.9
Ratio of Respondents to All Manufacturing Industries	20.8%	23.5%	27.2%	[2]	43.1%	39.9%	36.4%	[2]

[1] As reported by the U. S. Department of Commerce.
[2] Not meaningful.

Source: ECAT Survey and U. S. Department of Commerce

PLANT AND EQUIPMENT EXPENDITURES BY FOREIGN AFFILIATES
OF U. S. MANUFACTURING COMPANIES, BY MAJOR INDUSTRY, 1961-1970
(Millions of Dollars)

All Areas: Total	Total	Total Excluding Transportation Equipment	Food Products	Paper & Allied Products	Chemicals	Rubber Products	Primary & Fabricated Metals	Machinery (Excluding Electrical)	Electrical Machinery	Transportation Equipment	Other Manufacturing
1961	1,782	1,309	116	71	278	94	169	290	141	473	153
1962	2,042	1,457	126	95	308	91	162	315	177	585	183
1963	2,251	1,721	132	134	436	98	204	330	164	530	223
1964	3,007	2,281	159	180	619	109	303	414	223	726	273
1965	3,884	3,011	187	251	861	178	324	647	234	873	328
Subtotal, 1961-65	12,966	9,779	720	731	2,502	567	1,162	1,996	939	3,187	1,160
1966	4,583	3,617	200	309	1,035	158	446	776	268	966	424
1967	4,525	3,730	233	212	1,210	149	392	774	314	795	446
1968	4,191	3,574	204	172	1,208	162	347	695	321	617	465
1969	4,976	4,180	229	205	1,118	211	503	945	399	796	571
1970	6,524	5,464	261	274	1,294	200	771	1,432	488	1,060	743
Subtotal, 1966-70	24,799	20,565	1,127	1,172	5,865	880	2,459	4,622	1,790	4,234	2,649
Avg. Annual Change, 1961-65 to 1966-70	13.9%	16.0 %	9.4%	9.9%	18.6%	9.2%	16.2%	18.3%	13.8%	5.9%	18.0%

Source: U. S. Department of Commerce, Office of Business Economics.

Table 7

PERCENTAGE DISTRIBUTION OF PLANT AND EQUIPMENT EXPENDITURES
BY FOREIGN AFFILIATES OF U.S. MANUFACTURING COMPANIES BY
MAJOR INDUSTRY (EXCLUDING TRANSPORTATION INDUSTRY)

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	60-65	65-70
Total Manufacturing													
Machinery, except Electrical	18%	22%	22%	19%	18%	21%	21%	21%	19%	23%	26%	20%	22%
Chemicals	22%	21%	21%	25%	27%	29%	29%	32%	34%	27%	24%	26%	29%
Primary & Fabricated Metal Products	13%	13%	11%	12%	13%	11%	12%	11%	10%	12%	14%	12%	12%
Electrical Machinery	10%	11%	12%	10%	10%	8%	7%	8%	9%	10%	9%	10%	9%
Paper & Allied Products	7%	5%	7%	8%	8%	8%	9%	6%	5%	5%	5%	7%	6%
Food Products	9%	9%	9%	8%	7%	6%	6%	6%	6%	5%	5%	7%	5%
Rubber Products	6%	7%	6%	6%	5%	6%	4%	4%	5%	5%	4%	6%	4%
Other Manufacturing	14%	12%	13%	13%	12%	11%	12%	12%	13%	14%	14%	12%	13%

Source: U.S. Department of Commerce, Office of Business Economics

Table 9

DOMESTIC EXPENDITURES FOR PLANT AND EQUIPMENT
BY U. S. MANUFACTURING FIRMS BY INDUSTRY, 1961-65 AND 1966-70

Industry Group	Cumulative Expenditures (In Millions of Dollars) 1961-65	1966-70	Avg. Annual Growth Rate 1961-65 to 1966-70
All Manufacturing	85,080	143,750	11.1
Petroleum	15,740	25,190	9.9
All Manufacturing (except petroleum)	69,340	118,560	11.3
Rubber	1,300	3,560	22.3
Electrical Machinery & Equipment	3,570	8,000	17.5
Trans., Except Motor Vehicles	2,440	5,140	16.1
Machinery, Except Electrical	7,460	15,480	15.7
Paper	4,180	7,840	13.4
Food & Kindred Products	5,240	9,640	13.0
Primary Metal Products	9,230	15,970	11.6
Chemicals	9,350	15,100	10.1
Stone, Clay & Glass	3,160	4,410	6.9
Motor Vehicles & Parts	6,130	8,290	6.2
Textiles	3,490	3,960	2.6
Other Durables	9,980	15,690	9.5
Other Non-Durables	3,800	5,500	7.7

Source: Official Statistics of the U. S. Department of Commerce.

CUMULATIVE EXPENDITURES FOR PLANT AND EQUIPMENT OUTSIDE THE UNITED STATES
AND PLANT AND EQUIPMENT OBTAINED THROUGH ACQUISITION, BY INDUSTRY GROUP, 1961-65 AND 1966-70
(In Millions of Dollars)

Industry Group	IN THE UNITED STATES						OUTSIDE THE UNITED STATES					
	Expenditures for New Plant & Equipment (Exclusive of that Obtained through Acquisition)		Value of Plant & Equipment Obtained through Acquisition		TOTAL		Expenditures for New Plant & Equipment (Exclusive of that Obtained through Acquisition)		Value of Plant & Equipment Obtained through Acquisition		TOTAL	
	1961-65	1966-70	1961-65	1966-70	1961-65	1966-70	1961-65	1966-70	1961-65	1966-70	1961-65	1966-70
Food & Kindred Products	896.6	1,683.3	81.5	269.1	978.1	1,952.4	355.0	574.0	61.7	150.1	416.7	724.1
Paper & Allied Products	1,589.0	3,196.0	111.0	301.0	1,700.0	3,497.0	337.0	655.0	93.0	77.0	430.0	732.0
Chemicals & Allied Products	946.2	1,964.8	103.0	300.5	1,049.2	2,265.3	648.7	1,308.8	56.2	134.4	704.9	1,443.2
Primary & Fab. Metal Indus.	1,283.8	2,196.4	80.0	63.1	1,363.8	2,259.5	410.0	681.8	49.4	76.9	459.4	758.7
Machinery, Except Electrical	1,787.2	3,641.6	37.1	247.7	1,824.3	3,889.3	829.2	1,726.5	30.7	66.5	859.9	1,793.0
Machinery, Electrical	665.5	1,782.9	43.2	162.2	708.7	1,945.1	142.3	307.5	14.0	225.1	156.3	532.6
Motor Vehicles & Parts	4,916.5	7,512.3	70.9	149.3	4,987.4	7,661.6	2,197.7	2,568.2	236.2	109.0	2,433.9	2,677.2
Aircraft & Parts	530.6	1,632.2	2.9	130.7	533.5	1,762.9	14.0	54.2	0.0	14.6	14.0	68.8
Instruments & Related Products	710.9	2,065.9	19.0	135.0	729.9	2,200.9	202.4	1,076.3	0.0	300.0	202.4	1,376.3
All Other Industries	1,075.4	2,121.3	84.4	53.6	1,159.8	2,174.9	451.9	948.0	27.5	75.0	479.4	1,023.0
Total, All Industries	14,401.7	27,796.7	633.0	1,812.2	15,034.7	29,608.9	5,588.2	9,900.3	568.7	1,228.6	6,156.9	11,128.9
PERCENTAGE DISTRIBUTION OF CAPITAL EXPENDITURES												
Food & Kindred Products	91.7	86.2	8.3	13.8	100.0	100.0	85.2	79.3	14.8	20.7	100.0	100.0
Paper & Allied Products	93.5	91.4	6.5	8.6	100.0	100.0	78.4	89.5	21.6	10.5	100.0	100.0
Chemicals & Allied Products	90.2	86.7	9.8	13.3	100.0	100.0	92.0	90.7	8.0	9.3	100.0	100.0
Primary & Fab. Metal Indus.	94.1	97.2	5.9	2.8	100.0	100.0	89.2	89.9	10.8	10.1	100.0	100.0
Machinery, Except Electrical	98.0	93.6	2.0	6.4	100.0	100.0	96.3	96.7	3.7	3.3	100.0	100.0
Machinery, Electrical	93.9	91.7	6.1	8.3	100.0	100.0	91.0	57.7	9.0	42.7	100.0	100.0
Motor Vehicles & Parts	98.6	98.1	1.4	1.9	100.0	100.0	90.3	95.9	9.7	4.1	100.0	100.0
Aircraft & Parts	99.5	92.6	4.5	7.4	100.0	100.0	100.0	78.8	0.0	21.2	100.0	100.0
Instruments & Related Products	97.4	93.9	2.6	6.1	100.0	100.0	100.0	78.2	0.0	21.8	100.0	100.0
All Other Industries	92.7	97.5	7.3	2.5	100.0	100.0	94.3	92.7	5.7	7.3	100.0	100.0
Total, All Industries	95.8	93.9	4.2	6.1	100.0	100.0	90.8	89.0	9.2	11.0	100.0	100.0

Source: ECAT Survey

Table 10

Table 11

CAPITAL EXPENDITURES* BY U. S. MULTINATIONAL FIRMS AND THEIR FOREIGN AFFILIATES, BY GEOGRAPHIC AREA, 1961-65 and 1966-70

	1961-65	1966-70	% Change
Total, U. S.	14,401.7	27,796.8	93.0
Canada	914.8	1,861.1	103.4
Other Western Hemisphere	702.2	1,070.9	52.5
Western Europe	2,919.1	5,351.7	83.3
Far East	198.5	374.4	88.6
Rest of the World	718.6	1,136.3	60.9
Non-Allocable	135.0	106.0	21.4
Total, Outside U. S.	5,588.2	9,900.3	77.2
Total, Outside U. S. (Except Canada)	4,673.4	8,039.2	72.0
	% Distribution of Investment Outside U. S.		
Canada	16.4%	18.8%	
Other Western Hemisphere	12.6%	10.8%	
Western Europe	52.2%	54.1%	
Far East	3.5%	3.8%	
Rest of World	12.9%	11.4%	
Non-Allocable	2.4%	1.1%	
Total, Outside U. S.	100.0%	100.0%	

*Exclusive of that obtained through acquisitions.

Source: ECAT Survey.

DOMESTIC EMPLOYMENT AND EMPLOYMENT BY FOREIGN AFFILIATES OF U. S. FIRMS, 1960, 1965, AND 1970

Industry Group	Domestic Employment					Employment by Foreign Affiliates				
	1960 (000)	1965 (000)	1970 (000)	Absolute Change 1960-70 (000)	Avg. Annual Growth Rate 1960-70	1960 (000)	1965 (000)	1970 (000)	Absolute Change 1960-70 (000)	Avg. Annual Growth Rate 1960-70
Food & Kindred Products	169.3	200.7	222.8	53.5	2.8	49.3	82.8	133.4	84.1	10.5
Paper & Allied Products	153.0	200.0	246.0	93.0	4.9	34.6	51.9	78.1	43.5	8.5
Chemicals & Allied Products	96.7	106.8	178.7	82.0	6.3	63.4	103.5	146.3	82.9	8.7
Primary & Fab. Metal Industries	143.5	140.9	153.1	9.6	.7	19.9	44.2	65.4	45.5	12.6
Machinery, Except Electrical	384.9	467.2	536.7	151.8	3.4	165.0	227.3	323.9	158.9	7.0
Machinery, Electrical	204.1	242.0	313.9	109.8	4.4	87.0	98.7	160.4	73.4	6.3
Motor Vehicles & Parts	807.4	992.0	1,030.1	222.7	2.5	268.3	408.8	565.2	296.9	7.7
Aircraft & Parts	239.0	290.0	260.0	21.0	.8	2.0	4.0	12.0	10.0	19.6
Instruments & Related Products	85.9	123.5	175.0	89.1	7.4	32.5	51.9	109.7	77.2	12.9
All Other Industries	168.6	200.4	231.2	62.6	3.2	98.1	97.0	131.4	33.3	3.0
TOTAL, All Respondents	2,452.4	2,963.5	3,347.5	895.1	3.3	820.1	1,170.1	1,725.8	905.7	7.7
TOTAL, All Manufacturing Industries[1/]	16,800.0	18,060.0	19,370.0	2,570.0	1.4	NA	NA	NA	NA	NA
Ratio of Respondents to All Manufacturing	14.6%	16.4%	16.9%	32.2%	NA	NA	NA	NA	NA	NA

1/ As reported by the U. S. Department of Labor.

Source: ECAT Survey

Table 12

CHANGES IN EMPLOYMENT ATTRIBUTABLE TO ACQUISITIONS AND TO OTHER FACTORS BY U. S. FIRMS AND THEIR FOREIGN AFFILIATES, 1960-1970

Industry Group	CHANGE IN DOMESTIC EMPLOYMENT						CHANGE IN EMPLOYMENT OF FOREIGN AFFILIATES					
				Average Annual Change--						Average Annual Change--		
	Total (000)	Due to Acquisitions (000)	Due to Other Factors (000)	Total	Due to Acquisitions	Due to Other Factors	Total (000)	Due to Acquisitions (000)	Due to Other Factors (000)	Total	Due to Acquisitions	Due to Other Factors
Food & Kindred Products	+53.5	+57.5	-4.0	+2.8	+3.0	-0.2	+84.1	+38.4	+45.7	+10.5	+6.6	+6.8
Paper & Allied Products	+93.0	+46.0	+47.0	+4.9	+2.7	+2.7	+43.5	+30.7	+12.8	+8.5	+6.6	+3.2
Chemicals & Allied Products	+82.0	+54.5	+27.5	+6.3	+4.5	+2.5	+82.9	+48.1	+34.8	+8.7	+5.8	+4.5
Primary & Fab. Metal Indus.	+9.6	+14.5	-4.9	+0.7	+1.0	-0.3	+45.5	+32.1	+13.4	+12.6	+10.1	+5.3
Machinery, Except Electrical	+151.8	+35.0	+116.8	+3.4	+0.9	+2.7	+158.9	+28.2	+130.7	+7.0	+1.6	+6.0
Machinery, Electrical	+109.8	+44.3	+65.5	+4.4	+2.0	+2.8	+73.4	+44.0	+29.4	+6.3	+4.2	+3.0
Motor Vehicles & Parts	+222.7	+69.0	+153.7	+2.5	+0.8	+1.8	+296.9	+51.3	+245.6	+7.7	+1.8	+6.7
Aircraft & Parts	+21.0	+2.0	+19.0	+0.8	+0.1	+0.8	+10.0	+6.0	+4.0	+19.6	+14.9	+11.6
Instruments & Related Products	+89.1	+19.0	+70.1	+7.4	+2.0	+6.1	+77.2	+18.0	+59.2	+12.9	+4.5	+10.9
All Other	+62.6	+24.7	+37.9	+3.2	+1.4	+2.1	+33.3	+12.3	+21.0	+3.0	+1.2	+2.0
Total, All Respondents	+895.1	+366.5	+528.6	+3.3	+1.4	+2.0	+905.7	+309.1	+596.6	+7.7	+3.3	+5.6

Source: ECAT Survey.

Table 13

Table 14

EMPLOYEES ON MANUFACTURING PAYROLLS BY MAJOR INDUSTRY GROUP, 1939-70

[In thousands]

Year and month	Durable goods											
	Total	Ordnance and accessories	Lumber and wood products	Furniture and fixtures	Stone, clay, and glass products	Primary metal industries	Fabricated metal products	Machinery except electrical	Electrical equipment and supplies	Transportation equipment	Instruments and related products	Miscellaneous manufacturing industries
1939	4,715	11	.....	.....	369	.....	.....	588	441	645	.....	.....
1940	5,363	22	.....	.....	387	.....	.....	701	494	834	.....	.....
1941	6,968	71	.....	.....	436	.....	.....	959	657	1,297	.....	.....
1942	8,823	329	.....	.....	460	.....	.....	1,265	788	2,259	.....	.....
1943	11,094	486	.....	.....	446	.....	.....	1,500	1,015	3,666	.....	.....
1944	10,836	368	.....	.....	413	.....	.....	1,402	1,087	3,682	.....	.....
1945	9,074	245	.....	.....	408	.....	.....	1,207	979	2,548	.....	.....
1946	7,747	30	.....	.....	498	.....	.....	1,255	919	1,250	.....	.....
1947	8,385	27	845	326	537	1,279	989	1,375	1,035	1,273	267	421
1948	8,326	28	818	346	549	1,290	979	1,372	991	1,270	263	423
1949	7,460	26	741	317	514	1,134	881	1,182	962	1,230	259	383
1950	8,094	30	808	364	547	1,247	982	1,210	991	1,265	250	400
1951	9,089	77	840.2	357.2	587.0	1,364.3	1,077.8	1,458.6	1,113.8	1,515.1	294.3	436.0
1952	9,349	174.7	790.4	357.1	564.0	1,282.1	1,064.4	1,517.4	1,163.0	1,593.2	312.5	393.7
1953	10,110	234.3	778.7	369.9	581.3	1,383.1	1,150.4	1,584.4	1,333.3	1,969.1	327.1	420.9
1954	9,129	163.3	707.9	341.9	552.6	1,218.3	1,069.9	1,417.7	1,190.4	1,734.1	321.2	390.7
1955	9,941	141.2	739.6	363.6	588.4	1,322.5	1,122.4	1,448.5	1,240.8	1,854.6	328.2	396.2
1956	9,834	138.5	730.9	373.5	605.3	1,355.3	1,140.4	1,571.6	1,323.1	1,852.5	337.8	403.0
1957	9,856	140.2	655.3	374.3	595.4	1,355.3	1,167.3	1,585.9	1,343.8	1,909.1	342.1	387.2
1958	8,830	158.1	615.0	360.8	562.4	1,153.5	1,076.9	1,392.4	1,293.0	1,564.6	323.8	373.0
1959	9,373	203.5	656.8	383.0	606.0	1,182.6	1,122.5	1,452.1	1,396.4	1,635.0	345.3	387.7
1960	9,459	220.0	626.8	383.0	606.0	1,231.2	1,133.3	1,479.0	1,465.1	1,568.0	354.3	389.9
1961	9,070	244.2	582.9	367.5	587.0	1,142.7	1,084.5	1,418.6	1,473.3	1,448.6	347.4	378.2
1962	9,480	254.4	589.3	385.1	592.3	1,165.6	1,127.7	1,493.2	1,567.0	1,547.0	358.7	389.8
1963	9,816	265.5	592.6	389.9	600.8	1,172.2	1,150.1	1,529.3	1,553.9	1,609.7	364.9	386.8
1964	9,816	243.9	604.2	405.9	613.8	1,233.2	1,189.7	1,606.6	1,543.8	1,604.3	369.9	397.6
1965	10,406	225.8	606.9	430.7	629.3	1,301.0	1,269.0	1,733.3	1,658.2	1,740.6	389.0	419.5
1966	11,284	280.9	614.3	481.5	644.2	1,350.7	1,351.3	1,910.0	1,906.8	1,917.7	430.9	433.7
1967	11,429	317.2	596.8	455.4	628.3	1,322.1	1,363.1	1,969.6	1,958.9	1,948.5	430.8	428.4
1968	11,828	338.6	600.1	471.8	638.5	1,315.5	1,396.4	1,963.9	1,974.5	2,026.6	461.9	453.4
1969	11,893	318.8	609.2	483.5	636.3	1,309.0	1,442.1	2,027.7	2,013.0	2,067.1	476.8	440.2
1970	11,203	248.7	580.3	469.9	607.7	1,206.3	1,366.1	1,964.1	1,913.4	1,823.6	484.0	433.8

Percent Change:

1965-70	7.7	10.1	-4.4	6.8	1.5	0.4	9.2	13.2	15.3	4.8	18.0	1.0
1960-70	18.4	13.0	-7.4	20.1	5.6	6.1	22.1	32.8	30.4	16.2	29.6	8.7

Year and month	Nondurable goods										
	Total	Food and kindred products	Tobacco manufactures	Textile mill products	Apparel and other textile products	Paper and allied products	Printing and publishing	Chemicals and allied products	Petroleum and coal products	Rubber and plastics products, nec.	Leather and leather products
1939	5,564	1,393	.....	1,193	974	320	589	371	139	163	388
1940	5,822	1,414	.....	1,177	929	333	570	399	145	176	374
1941	6,775	1,514	.....	1,338	1,050	372	580	443	153	213	416
1942	8,458	1,617	.....	1,342	1,067	376	566	571	160	219	413
1943	8,518	1,649	.....	1,290	1,107	389	557	609	160	206	381
1944	8,472	1,695	.....	1,187	1,079	388	558	650	174	201	368
1945	8,430	1,691	.....	1,139	1,060	391	577	668	186	204	367
1946	8,962	1,767	.....	1,264	1,146	447	669	633	208	217	405
1947	7,159	1,709	118	1,299	1,154	460	721	649	221	223	412
1948	7,256	1,801	114	1,301	1,180	473	740	655	228	212	412
1949	6,953	1,778	109	1,187	1,173	455	740	618	221	203	389
1950	7,147	1,790	103	1,236	1,202	483	748	640	218	211	393
1951	7,394	1,823.2	104.1	1,237.7	1,207.2	511.2	767.6	707.0	231.3	234.4	380.0
1952	7,284	1,827.8	105.6	1,163.4	1,216.4	503.7	779.9	730.1	234.6	239.3	384.2
1953	7,438	1,838.9	103.6	1,154.8	1,249.0	530.4	802.8	768.2	241.4	261.0	398.2
1954	7,165	1,814.3	102.3	1,042.3	1,163.6	531.1	813.9	752.7	238.1	238.4	373.0
1955	7,340	1,824.7	102.5	1,050.2	1,219.2	550.0	834.7	773.1	237.1	263.3	383.9
1956	7,409	1,843.9	99.6	1,032.0	1,228.4	567.6	862.0	796.5	236.3	269.2	382.7
1957	7,319	1,835.4	92.0	981.1	1,210.1	570.6	870.0	810.0	232.2	271.9	372.7
1958	7,116	1,772.6	94.5	918.8	1,171.8	564.1	872.6	794.1	223.8	244.3	358.2
1959	7,303	1,780.6	94.5	945.7	1,225.9	587.2	886.5	809.2	215.5	272.7	374.0
1960	7,326	1,780.9	94.0	924.4	1,220.2	597.1	911.3	828.7	211.9	279.0	362.4
1961	7,256	1,775.2	90.7	893.4	1,214.5	601.3	917.3	828.2	201.9	275.3	350.2
1962	7,373	1,760.0	90.5	907.3	1,252.7	614.4	936.4	848.3	195.3	298.4	360.7
1963	7,460	1,752.9	88.6	895.4	1,282.8	618.3	950.8	862.3	188.7	318.5	349.3
1964	7,458	1,750.4	90.2	892.0	1,302.5	625.5	951.5	878.6	183.9	336.0	347.6
1965	7,636	1,746.7	86.8	925.6	1,354.2	639.1	979.4	907.8	182.9	370.8	352.9
1966	7,930	1,777.2	84.3	963.5	1,401.9	668.9	1,016.9	961.4	184.2	390.7	362.8
1967	8,006	1,796.2	86.5	936.5	1,397.5	679.1	1,047.8	1,001.4	183.2	418.4	360.9
1968	8,153	1,781.5	84.6	950.9	1,408.8	691.2	1,065.1	1,025.9	196.8	441.3	366.2
1969	8,277	1,795.9	82.0	956.1	1,412.3	712.1	1,093.3	1,060.7	182.9	468.9	368.1
1970	8,190	1,798.9	79.0	904.8	1,384.3	719.0	1,106.3	1,086.8	192.6	471.1	328.7

Percent Change:

1965-70	7.0	2.2	-9.0	4.2	2.3	11.1	13.0	16.4	5.0	21.3	-6.9
1960-70	11.6	0.3	-16.0	4.4	12.3	18.1	21.4	27.6	-9.4	50.7	-9.6

SOURCE: Bureau of Labor Statistics, Handbook of Labor Statistics, 1971.

Table 15

FIRST YEAR CHANGES IN MAJOR COLLECTIVE BARGAINING SITUATIONS[1/] IN MANUFACTURING INDUSTRIES 1960-1970

	MANUFACTURING			
	Median Adjustment		Median Increase	
	Cents	Percent	Cents	Percent
1960	8.7	3.2	8.9	3.2
1961	6.0	2.4	6.5	2.5
1962	5.0	2.4	6.8	2.9
1963	6.8	2.5	8.0	3.0
1964	5.7	2.0	6.0	2.2
1965	10.0	4.0	10.0	4.1
1966	10.2	4.2	10.3	4.2
1967	17.5	6.4	18.0	6.4
1968	23.5	6.9	23.5	6.9
1969	21.4	7.0	21.5	7.0
1970	26.3	7.5	26.3	7.5

1/ Defined as those involving 1,000 workers or more

Source: Bureau of Labor Statistics, Handbook of Labor Statistics, 1971.

Table 16

AVERAGE HOURLY EARNINGS OF PRODUCTION WORKERS ON MANUFACTURING PAYROLLS, BY MAJOR INDUSTRY GROUPS, 1947-70

[In dollars]

Year and month	Durable goods												
	Total	Ordnance and accessories	Lumber and wood products	Furniture and fixtures	Stone, clay, and glass products	Primary metal industries	Fabricated metal products	Machinery, except electrical	Electrical equipment and supplies	Transportation equipment	Instruments and related products	Miscellaneous manufacturing industries
1947	1.278	1.306	1.090	1.097	1.194	1.388	1.263	1.344	1.247	1.426	1.197	1.106
1948	1.385	1.387	1.190	1.192	1.307	1.522	1.384	1.462	1.360	1.567	1.308	1.184
1949	1.453	1.481	1.225	1.234	1.368	1.587	1.447	1.523	1.412	1.644	1.370	1.218
1950	1.519	1.564	1.298	1.282	1.438	1.647	1.519	1.601	1.444	1.722	1.448	1.273
1951	1.65	1.71	1.41	1.39	1.54	1.81	1.64	1.75	1.56	1.84	1.59	1.36
1952	1.73	1.82	1.49	1.47	1.61	1.90	1.72	1.85	1.65	1.95	1.69	1.43
1953	1.86	1.92	1.55	1.54	1.72	2.06	1.83	1.95	1.74	2.05	1.73	1.52
1954	1.90	2.00	1.57	1.57	1.77	2.10	1.88	2.00	1.79	2.11	1.80	1.56
1955	1.99	2.07	1.62	1.62	1.86	2.24	1.96	2.08	1.84	2.21	1.87	1.61
1956	2.08	2.21	1.69	1.69	1.96	2.36	2.05	2.20	1.95	2.29	1.97	1.69
1957	2.19	2.36	1.74	1.75	2.05	2.50	2.16	2.29	2.04	2.39	2.06	1.75
1958	2.26	2.51	1.79	1.78	2.12	2.64	2.25	2.37	2.12	2.51	2.15	1.79
1959	2.36	2.57	1.87	1.83	2.22	2.77	2.35	2.48	2.20	2.64	2.24	1.84
1960	2.43	2.65	1.89	1.88	2.28	2.81	2.43	2.55	2.28	2.74	2.31	1.89
1961	2.49	2.75	1.95	1.91	2.34	2.90	2.49	2.62	2.35	2.80	2.38	1.92
1962	2.56	2.83	1.99	1.95	2.41	2.98	2.55	2.71	2.43	2.91	2.44	1.98
1963	2.63	2.93	2.04	2.00	2.47	3.04	2.61	2.78	2.48	3.01	2.49	2.03
1964	2.71	3.08	2.11	2.05	2.53	3.11	2.68	2.87	2.51	3.09	2.54	2.08
1965	2.79	3.13	2.17	2.12	2.62	3.18	2.76	2.96	2.58	3.21	2.62	2.14
1966	2.90	3.17	2.25	2.21	2.73	3.28	2.88	3.09	2.68	3.33	2.72	2.22
1967	3.00	3.18	2.37	2.33	2.82	3.34	2.98	3.19	2.77	3.44	2.83	2.31
1968	3.19	3.26	2.57	2.47	2.99	3.56	3.16	3.36	2.98	3.69	2.98	2.50
1969	3.39	3.42	2.74	2.62	3.19	3.79	3.34	3.58	3.09	3.90	3.15	2.66
1970	3.56	3.61	2.96	2.77	3.40	3.94	3.52	3.77	3.29	4.07	3.34	2.82

Year and month	Nondurable goods											
	Total	Food and kindred products	Tobacco manufactures	Textile mill products	Apparel and other textile products	Paper and allied products	Printing and publishing	Chemicals and allied products	Petroleum and coal products	Rubber and plastics products, nec.	Leather and leather products
1947	1.143	1.063	0.905	1.035	1.161	1.153	1.476	1.221	1.502	1.300	1.036
1947	1.250	1.153	.936	1.135	1.220	1.279	1.634	1.343	1.707	1.361	1.105
1949	1.295	1.206	.999	1.181	1.309	1.329	1.709	1.417	1.798	1.410	1.172
1950	1.347	1.262	1.076	1.228	1.240	1.398	1.832	1.497	1.841	1.472	1.170
1951	1.44	1.35	1.14	1.32	1.31	1.51	1.91	1.62	1.99	1.48	1.25
1952	1.51	1.44	1.18	1.34	1.32	1.59	2.02	1.69	2.10	1.71	1.30
1953	1.58	1.53	1.25	1.36	1.35	1.67	2.11	1.81	2.22	1.80	1.35
1954	1.62	1.59	1.30	1.36	1.37	1.73	2.18	1.89	2.29	1.84	1.36
1955	1.67	1.66	1.34	1.38	1.37	1.81	2.26	1.97	2.37	1.96	1.39
1956	1.77	1.76	1.43	1.44	1.47	1.92	2.33	2.09	2.54	2.03	1.48
1957	1.85	1.85	1.53	1.49	1.51	2.02	2.40	2.20	2.66	2.11	1.52
1958	1.91	1.94	1.59	1.49	1.54	2.10	2.49	2.29	2.73	2.19	1.56
1959	1.98	2.02	1.64	1.56	1.56	2.18	2.59	2.40	2.85	2.27	1.59
1960	2.05	2.11	1.70	1.61	1.59	2.26	2.68	2.50	2.89	2.32	1.64
1961	2.11	2.17	1.78	1.63	1.64	2.34	2.75	2.58	3.01	2.38	1.68
1962	2.17	2.24	1.83	1.68	1.69	2.40	2.82	2.65	3.05	2.44	1.72
1963	2.22	2.30	1.91	1.71	1.73	2.48	2.89	2.72	3.16	2.47	1.76
1964	2.29	2.37	1.95	1.79	1.79	2.56	2.97	2.80	3.20	2.54	1.82
1965	2.36	2.43	2.09	1.87	1.83	2.65	3.06	2.89	3.28	2.61	1.88
1966	2.45	2.52	2.19	1.96	1.89	2.75	3.16	2.99	3.41	2.67	1.94
1967	2.57	2.64	2.27	2.06	2.03	2.87	3.28	3.10	3.58	2.74	2.07
1968	2.74	2.80	2.48	2.21	2.21	3.05	3.48	3.26	3.75	2.92	2.23
1969	2.91	2.98	2.62	2.34	2.31	3.24	3.69	3.47	4.00	3.07	2.36
1970	3.08	3.16	2.92	2.43	2.39	3.44	3.92	3.69	4.27	3.30	2.49

Source: Bureau of Labor Statistics, Handbook of Labor Statistics, 1971.

FIXED ASSETS IN THE UNITED STATES AND FIXED ASSETS OF FOREIGN AFFILIATES, 1960, 1965, 1970
(In Millions of Dollars)

Industry Group	U. S. ASSETS 1960	1965	1970	Absolute Change 1960-70	Avg. Annual Growth Rate 1960-70	ASSETS OF FOREIGN AFFILIATES 1960	1965	1970	Absolute Change 1960-70	Avg. Annual Growth Rate 1960-70
Food & Kindred Products	1,102.5	1,500.2	2,480.3	1,377.8	8.5	240.2	485.0	928.1	687.9	14.5
Paper & Allied Products	1,711.6	2,525.3	4,556.3	2,844.7	10.3	282.0	570.0	1,015.2	733.2	13.7
Chemicals & Allied Products	1,085.3	1,460.1	2,615.2	1,529.9	9.2	331.5	833.1	1,455.8	1,124.3	15.9
Primary & Fab. Metal Industries	1,826.4	2,313.1	3,141.1	1,314.7	5.6	154.0	324.1	617.2	463.2	14.9
Machinery, Except Electrical	2,202.8	3,121.4	5,707.4	3,504.6	10.0	643.1	1,354.5	2,786.6	2,143.5	15.8
Machinery, Electrical	575.6	645.7	1,732.1	1,156.5	11.6	55.5	95.4	408.8	353.3	22.1
Motor Vehicles & Parts	4,724.9	6,157.8	6,623.8	1,898.9	3.4	1,094.5	2,643.9	3,937.9	2,843.4	13.7
Aircraft & Parts	324.0	559.0	1,309.0	985.0	15.0	7.0	13.0	55.2	48.2	22.9
Instruments & Related Products	443.1	798.9	1,994.7	1,551.6	16.2	109.2	248.2	895.4	786.2	23.4
All Other Industries	1,319.2	2,013.0	3,917.2	2,598.0	11.5	298.3	497.7	1,012.9	714.6	13.0
TOTAL, All Respondents	15,315.4	21,094.5	34,077.1	18,761.7	8.4	3,215.3	7,064.9	13,113.1	9,897.8	15.1

Source: ECAT Survey

Table 17

SALES (INCLUDING EXPORTS) FROM U. S. BASED FACILITIES AND TOTAL SALES OF FOREIGN AFFILIATES, 1960, 1965, AND 1970
(In Millions of Dollars)

Industry Group	U. S. Sales (Including Exports)					Sales by Foreign Affiliates				
	1960	1965	1970	Absolute Change 1960-70	Avg. Annual Growth Rate 1960-70	1960	1965	1970	Absolute Change 1960-70	Avg. Annual Growth Rate 1960-70
Food & Kindred Products	8,004.5	9,551.3	13,090.8	5,086.3	5.0	872.5	2,640.7	4,440.6	3,568.1	17.7
Paper & Allied Products	3,385.0	4,993.2	8,356.8	4,971.8	9.5	569.0	1,189.3	2,097.6	1,528.6	13.9
Chemicals & Allied Products	3,064.8	4,667.5	7,950.6	4,885.8	10.0	1,058.6	2,055.0	4,155.2	3,096.6	14.7
Primary & Fab. Metal Industries	2,962.4	3,577.4	4,901.2	1,938.8	5.2	362.3	644.0	1,414.9	1,052.6	14.6
Machinery, Except Electrical	6,612.0	10,134.0	15,276.1	8,664.1	8.4	1,660.2	3,269.8	7,174.0	5,513.8	15.8
Machinery, Electrical	3,025.7	4,515.9	7,481.5	4,455.8	9.5	732.4	1,124.6	2,193.4	1,461.0	11.6
Motor Vehicles & Parts	20,347.1	32,577.0	34,137.3	13,790.2	5.3	4,391.2	8,596.3	14,613.2	10,222.0	12.8
Aircraft & Parts	4,436.0	5,699.0	8,948.0	4,512.0	7.3	30.0	63.0	210.0	180.0	21.5
Instruments & Related Products	1,430.8	2,590.5	4,905.7	3,474.9	13.1	376.6	852.7	2,323.3	1,946.7	20.0
All Other Industries	4,746.0	6,123.0	8,112.7	3,366.7	5.5	1,102.0	1,654.4	2,807.3	1,705.3	9.8
TOTAL, All Respondents	58,004.3	84,428.0	113,160.7	55,165.4	6.9	11,154.8	22,089.8	41,429.5	30,274.7	14.0

Source: ECAT Survey.

Table 19

PERCENTAGE DISTRIBUTION OF SALES BY
FOREIGN AFFILIATES OF U. S. FIRMS, 1960, 1965 and 1970

Sales by Area and Destination.	Value of Sales (million dollars)			Percentage Distribution of Sales (percent)		
	1960	1965	1970	1960	1965	1970
All Foreign Affiliates:						
Total Sales	11,154.8	22,069.8	41,429.5	100.0	100.0	100.0
Local Sales	9,327.5	17,846.6	31,530.4	83.6	80.8	76.2
Export Sales to U.S.	408.6	807.9	3,705.7	3.7	3.7	8.9
Export Sales to Other Countries	1,418.7	3,433.3	6,193.4	12.7	15.5	14.9
Canadian Foreign Affiliates:						
Total Sales	2,798.8	5,099.4	9,067.2	100.0	100.0	100.0
Local Sales	2,321.4	4,252.0	5,703.4	82.9	83.4	62.9
Export Sales to U.S.	229.9	485.7	2,925.6	8.2	9.5	32.3
Export Sales to Other Countries	247.5	361.7	438.2	8.8	7.1	4.8
Foreign Affiliates, except Canadian:						
Total Sales	8,356.0	16,990.4	32,362.3	100.0	100.0	100.0
Local Sales	7,006.1	13,596.6	25,827.0	83.8	80.0	79.8
Export Sales to U.S.	178.7	322.2	780.1	2.1	1.9	2.4
Export Sales to Other Countries	1,171.2	3,071.6	5,755.2	14.0	18.1	17.8

Source: ECAT Survey.

PERCENTAGE DISTRIBUTION OF SALES OF FOREIGN MANUFACTURING AFFILIATES
OF U. S. FIRMS BY AREA AND DESTINATION
1965, 1967 and 1968

Location of Affiliate	Total Sales			Local Sales			Exported to United States			Exported to Other Countries		
	1965	1967	1968	1965	1967	1968	1965	1967	1968	1965	1967	1968
All Areas	100.0	100.0	100.0	82.0	79.0	77.9	4.2	6.9	7.9	13.8	14.1	14.2
Canada	100.0	100.0	100.0	81.6	74.5	72.1	10.3	17.8	20.4	8.1	7.6	7.5
All Areas, Except Canada:	100.0	100.0	100.0	82.1	81.0	80.5	1.4	2.0	2.3	16.4	17.0	17.2
Latin America & OWH*	100.0	100.0	100.0	92.3	90.6	90.5	1.8	2.3	2.7	5.7	7.1	6.8
Europe:	100.0	100.0	100.0	76.3	75.4	74.3	1.2	1.7	2.1	22.4	22.9	23.6
EEC	100.0	100.0	100.0	76.3	73.8	72.1	1.0	1.6	2.2	22.7	24.6	25.7
Other, including U. K.	100.0	100.0	100.0	76.4	77.2	76.8	1.5	1.8	2.0	22.2	21.0	21.1
Other Areas	100.0	100.0	100.0	92.9	90.7	91.3	1.6	2.8	2.6	5.4	6.5	6.1

*Other Western Hemisphere

Source: U. S. Department of Commerce,
Survey of Current Business,
Sales of Foreign Affiliates of U. S. Firms,
1961-65, 1967 and 1968.

PERCENTAGE DISTRIBUTION OF SALES OF FOREIGN MANUFACTURING AFFILIATES
OF U. S. FIRMS BY INDUSTRY AND DESTINATION
1965, 1967 and 1968

	Total Sales			Local Sales			Exported to United States			Exported to Other Countries		
	1965	1967	1968	1965	1967	1968	1965	1967	1968	1965	1967	1968
All Manufacturing	100.0	100.0	100.0	82.0	79.0	77.9	4.2	6.9	7.9	13.8	14.1	14.2
Food Products	100.0	100.0	100.0	86.7	86.8	85.6	3.0	3.7	3.9	10.3	9.6	10.5
Paper & allied products	100.0	100.0	100.0	52.4	54.9	56.0	35.7	32.1	29.4	12.0	13.0	14.6
Chemicals	100.0	100.0	100.0	84.3	83.6	83.2	2.5	1.9	1.9	13.2	14.5	15.0
Rubber products	100.0	100.0	100.0	91.8	91.1	91.6	0.4	1.5	1.4	7.8	7.5	7.0
Primary & fabricated metals	100.0	100.0	100.0	75.4	73.3	73.7	5.9	8.4	8.5	18.7	18.3	17.8
Machinery, excl. electrical	100.0	100.0	100.0	77.5	73.2	75.3	3.1	3.4	4.1	19.4	23.4	20.6
Electrical machinery	100.0	100.0	100.0	88.1	88.1	87.9	1.5	1.3	1.7	10.4	10.6	10.4
Transportation equipment	100.0	100.0	100.0	83.5	75.9	71.6	2.6	13.6	17.1	13.8	10.5	11.3
Other products	100.0	100.0	100.0	83.0	80.9	79.1	3.4	3.4	3.8	13.6	15.7	17.1

Source: U. S. Department of Commerce
Survey of Current Business
Sales of Foreign Affiliates of U. S. Firms
1961-65, 1967 and 1968

PERCENTAGE DISTRIBUTION OF SALES OF FOREIGN MANUFACTURING AFFILIATES
OF U. S. FIRMS IN CANADA, BY INDUSTRY AND DESTINATION
1965, 1967 and 1968

	Total Sales			Local Sales			Exported to United States			Exported to Other Countries		
	1965	1967	1968	1965	1967	1968	1965	1967	1968	1965	1967	1968
All Manufacturing	100.0	100.0	100.0	81.6	74.5	72.1	10.3	17.8	20.4	8.1	7.6	7.5
Food Products	100.0	100.0	100.0	90.0	92.3	93.4	2.5	2.1	1.8	7.5	5.6	4.8
Paper & allied products	100.0	100.0	100.0	39.2	39.0	38.2	47.3	46.0	44.0	13.5	14.9	17.9
Chemicals	100.0	100.0	100.0	88.5	92.9	92.7	5.3	4.8	4.0	6.2	2.3	3.3
Rubber products	100.0	100.0	100.0	98.1	96.1	95.9	1.3	2.8	2.9	0.6	1.1	1.2
Primary & fabricated metals	100.0	100.0	100.0	64.1	62.5	62.4	12.6	13.8	15.3	23.5	23.6	22.9
Machinery, excl. electrical	100.0	100.0	100.0	87.4	83.5	83.6	7.3	8.6	11.0	5.3	7.9	5.5
Electrical machinery	100.0	100.0	100.0	92.5	92.9	92.6	2.5	2.4	2.0	5.0	4.7	5.4
Transportation equipment	100.0	100.0	100.0	88.7	61.6	55.7	6.2	33.7	39.7	5.1	4.7	4.6
Other products	100.0	100.0	100.0	87.1	86.0	85.9	8.2	8.1	9.2	4.7	5.9	4.8

Source: U. S. Department of Commerce
Survey of Current Business
Sales of Foreign Affiliates of U. S. Firms
1961-65, 1967 and 1968

PERCENTAGE DISTRIBUTION OF SALES OF FOREIGN MANUFACTURING AFFILIATES OF U. S. FIRMS IN ALL AREAS, EXCEPT CANADA, BY INDUSTRY AND DESTINATION 1965, 1967 and 1968

	Total Sales			Local Sales			Exported to United States			Exported to Other Countries		
	1965	1967	1968	1965	1967	1968	1965	1967	1968	1965	1967	1968
All Manufacturing	100.0	100.0	100.0	82.1	81.0	80.5	1.4	2.0	2.3	16.4	17.0	17.2
Food Products	100.0	100.0	100.0	85.1	84.3	82.3	3.2	4.3	4.8	11.7	11.3	12.8
Paper & allied products	100.0	100.0	100.0	91.4	90.4	91.2	1.1	0.7	0.7	7.5	8.8	8.1
Chemicals	100.0	100.0	100.0	82.9	81.0	80.7	1.6	1.2	1.3	15.5	17.8	18.0
Rubber products	100.0	100.0	100.0	89.3	89.1	90.0	0.0	1.0	0.8	10.6	9.9	9.1
Primary & fabricated metals	100.0	100.0	100.0	84.9	80.7	81.0	0.5	4.7	4.3	14.6	14.6	14.7
Machinery, excl. electrical	100.0	100.0	100.0	74.7	70.4	73.1	1.9	1.9	2.4	23.3	28.0	24.5
Electrical machinery	100.0	100.0	100.0	86.2	86.1	86.1	1.0	0.9	1.6	12.8	13.0	12.3
Transportation equipment	100.0	100.0	100.0	81.3	84.2	81.8	1.0	2.0	2.7	17.7	13.8	15.5
Other products	100.0	100.0	100.0	81.1	78.7	76.4	1.2	1.5	1.5	17.7	19.8	22.1

Source: U. S. Department of Commerce
Survey of Current Business
Sales of Foreign Affiliates of U. S. Firms
1961-65, 1967 and 1968

PERCENTAGE DISTRIBUTION OF SALES OF FOREIGN MANUFACTURING AFFILIATES
OF U. S. FIRMS IN EEC, BY INDUSTRY AND DESTINATION
1965, 1967 and 1968

	Total Sales			Local Sales			Exported to United States			Exported to Other Countries		
	1965	1967	1968	1965	1967	1968	1965	1967	1968	1965	1967	1968
All Manufacturing	100.0	100.0	100.0	76.3	73.8	72.1	1.0	1.6	2.2	22.7	24.6	25.7
Food Products	100.0	100.0	100.0	89.0	88.3	83.6	0.6	0.6	0.9	10.4	11.0	15.5
Paper & allied products	100.0	100.0	100.0	91.9	81.0	83.8	0.0	0.9	0.6	8.1	18.1	15.6
Chemicals	100.0	100.0	100.0	68.9	70.1	66.6	0.9	0.9	1.1	30.2	29.0	32.3
Rubber products	100.0	100.0	100.0	64.7	63.5	69.1	0.0	0.0	0.7	35.3	36.5	30.2
Primary & fabricated metals	100.0	100.0	100.0	83.4	82.9	83.8	0.2	0.1	0.2	16.4	17.0	16.0
Machinery, excl. electrical	100.0	100.0	100.0	69.7	64.0	66.6	1.9	2.0	2.3	28.4	33.9	31.1
Electrical machinery	100.0	100.0	100.0	86.9	82.3	82.6	0.3	0.2	1.6	12.8	17.5	15.8
Transportation equipment	100.0	100.0	100.0	75.7	76.3	71.5	1.1	3.0	4.7	23.1	20.6	23.8
Other products	100.0	100.0	100.0	77.5	72.9	68.0	1.0	2.0	1.4	21.6	25.1	30.6

Source: U. S. Department of Commerce
Survey of Current Business
Sales of Foreign Affiliates of U. S. Firms
1961-65, 1967 and 1968

Table 24

PERCENTAGE DISTRIBUTION OF SALES OF FOREIGN MANUFACTURING AFFILIATES OF U. S. FIRMS IN WEST EUROPE* (EXCEPT EEC), BY INDUSTRY AND DESTINATION 1965, 1967 and 1968

	Total Sales			Local Sales			Exported to United States			Exported to Other Countries		
	1965	1967	1968	1965	1967	1968	1965	1967	1968	1965	1967	1968
All Manufacturing	100.0	100.0	100.0	76.4	77.2	76.8	1.5	1.8	2.0	22.2	21.0	21.1
Food Products	100.0	100.0	100.0	94.6	93.4	91.3	0.8	1.3	1.4	4.6	5.3	7.3
Paper & allied products	100.0	100.0	100.0	91.3	90.4	87.4	0.0	0.0	0.0	8.7	9.6	12.6
Chemicals	100.0	100.0	100.0	82.6	80.3	80.0	0.4	0.4	0.6	17.0	19.3	19.4
Rubber products	100.0	100.0	100.0	88.5	88.1	89.5	0.3	3.4	1.0	11.1	8.5	9.5
Primary & fabricated metals	100.0	100.0	100.0	76.8	74.8	73.6	1.1	1.6	2.8	22.1	23.7	23.6
Machinery, excl. electrical	100.0	100.0	100.0	66.6	64.0	67.8	2.8	2.9	3.3	30.5	33.0	28.8
Electrical machinery	100.0	100.0	100.0	79.5	86.2	87.1	2.0	1.2	1.3	18.5	12.6	11.6
Transportation equipment	100.0	100.0	100.0	70.0	77.7	76.5	1.9	2.8	3.0	28.1	19.6	20.4
Other products	100.0	100.0	100.0	70.7	67.8	66.2	1.2	1.4	1.6	28.1	30.9	32.2

Source: U. S. Department of Commerce
Survey of Current Business
Sales of Foreign Affiliates of U. S. Firms
1961-65, 1967 and 1968

*Including United Kingdom

PERCENTAGE DISTRIBUTION OF SALES OF FOREIGN MANUFACTURING AFFILIATES
OF U. S. FIRMS IN OTHER AREAS, BY INDUSTRY AND DESTINATION
1965, 1967 and 1968

	Total Sales			Local Sales			Exported to United States			Exported to Other Countries		
	1965	1967	1968	1965	1967	1968	1965	1967	1968	1965	1967	1968
All Manufacturing	100.0	100.0	100.0	92.9	90.7	91.3	1.6	2.8	2.6	5.4	6.5	6.1
Food Products	100.0	100.0	100.0	72.9	79.6	82.2	8.8	9.6	8.5	18.3	10.9	9.3
Paper & allied products	100.0	100.0	100.0	95.5	94.5	97.0	0.0	0.0	0.0	4.5	5.5	3.0
Chemicals	100.0	100.0	100.0	91.5	87.7	91.1	2.8	1.2	1.0	5.7	11.1	7.9
Rubber products	100.0	100.0	100.0	96.3	96.3	95.7	0.0	0.2	1.0	3.7	3.5	3.2
Primary & fabricated metals	100.0	100.0	100.0	97.3	70.3	71.7	0.0	24.1	19.3	2.7	5.7	9.0
Machinery, excl. electrical	100.0	100.0	100.0	95.0	92.0	92.1	1.0	0.4	1.1	4.0	7.6	6.8
Electrical machinery	100.0	100.0	100.0	88.3	89.7	87.5	2.4	3.0	4.1	9.3	7.3	8.4
Transportation equipment	100.0	100.0	100.0	96.2	97.7	97.1	0.0	0.0	0.0	3.8	2.3	2.9
Other products	100.0	100.0	100.0	95.3	95.8	93.6	1.3	0.6	1.1	3.4	3.5	5.3

Source: U. S. Department of Commerce
Survey of Current Business
Sales of Foreign Affiliates of U. S. Firms
1961-65, 1967 and 1968

Table 26

PERCENTAGE DISTRIBUTION OF SALES OF FOREIGN MANUFACTURING AFFILIATES
OF U. S. FIRMS IN LATIN AMERICA AND OWH*, BY INDUSTRY AND DESTINATION
1965, 1967 and 1968

	Total Sales			Local Sales			Exported to United States			Exported to Other Countries		
	1965	1967	1968	1965	1967	1968	1965	1967	1968	1965	1967	1968
All Manufacturing	100.0	100.0	100.0	92.3	90.6	90.5	1.8	2.3	2.7	5.7	7.1	6.8
Food Products	100.0	100.0	100.0	77.7	77.2	75.8	5.3	6.9	8.2	17.0	15.9	16.0
Paper & allied products	100.0	100.0	100.0	88.8	92.0	92.7	2.8	1.7	1.7	8.4	6.3	5.6
Chemicals	100.0	100.0	100.0	90.1	88.5	89.4	2.4	2.3	2.4	7.4	9.2	8.2
Rubber products	100.0	100.0	100.0	99.4	99.2	98.1	0.0	0.0	0.5	0.6	0.8	1.4
Primary & fabricated metals	100.0	100.0	100.0	95.8	97.8	97.7	0.0	0.0	0.0	4.2	2.2	2.3
Machinery, excl. electrical	100.0	100.0	100.0	94.3	84.6	90.0	0.7	1.0	2.0	5.0	14.4	8.0
Electrical machinery	100.0	100.0	100.0	97.8	94.7	93.1	0.2	0.6	0.5	2.0	4.8	6.4
Transportation equipment	100.0	100.0	100.0	99.3	98.8	98.4	0.2	0.4	0.6	0.4	0.9	1.0
Other products	100.0	100.0	100.0	97.0	96.7	95.6	1.7	1.6	1.9	1.2	1.7	2.5

* Other Western Hemisphere

Source: U. S. Department of Commerce
Survey of Current Business
Sales of Foreign Affiliates of U. S. Firms
1961-65, 1967 and 1968

Table 28

MAJOR DETERMINANTS OF FOREIGN INVESTMENT DECISIONS
RANKED IN ORDER OF SIGNIFICANCE, BY GEOGRAPHIC AREA

Ranking in Order of Importance	Number of Responses: Trade Restrictions*	Investment Regulations (e.g. local content regulations)	Market** Demands	Labor Cost Advantages	Other Factors	Total, All Responses
All Areas:						
1 (most)	67	36	187	17	22	329
2	114	106	47	30	32	329
3	82	56	35	73	17	263
4	20	44	23	90	10	187
5 (least)	1	13	2	23	9	48
Negligible	32	62	21	85	16	216
Total Responses	316	317	315	318	106	1,372
Canada:						
1 (most)	16	4	41	3	6	70
2	25	19	7	7	7	65
3	12	13	7	14	3	49
4	2	8	4	16	1	31
5 (least)	-	3	1	4	1	9
Negligible	12	20	7	23	3	65
Total Responses	67	67	67	67	21	289
W. Hemisphere:						
1 (most)	12	13	35	3	4	67
2	20	24	15	4	4	67
3	21	12	9	14	2	58
4	7	9	3	23	3	45
5 (least)	-	2	-	4	3	9
Negligible	4	6	3	18	4	35
Total Responses	64	66	65	66	20	281
W. Europe:						
1 (most)	15	2	43	5	3	68
2	27	19	10	7	8	71
3	18	12	6	19	3	58
4	2	12	4	17	4	39
5 (least)	-	4	-	2	2	8
Negligible	4	16	2	16	3	41
Total Responses	66	65	65	66	23	285
Far East:						
1 (most)	12	10	33	4	4	63
2	21	20	7	7	6	61
3	17	9	5	15	4	50
4	4	9	7	15	1	36
5 (least)	-	2	1	5	2	10
Negligible	5	9	6	13	3	36
Total Responses	59	59	59	59	20	256
Rest of World:						
1 (most)	12	7	35	2	5	61
2	21	24	8	5	7	65
3	14	10	8	11	5	48
4	5	6	4	19	1	35
5 (least)	1	2	-	8	1	12
Negligible	7	11	4	15	3	40
Total Responses	60	60	59	60	22	261

* Includes tariffs, quotas, and other nontariff barriers to trade.

** Includes major differences between domestic and foreign product specifications, product perishability, and service and distribution requirements.

Source: ECAT Survey

Table 29

MAJOR DETERMINANTS OF FOREIGN INVESTMENT DECISIONS
RANKED IN ORDER OF SIGNIFICANCE, BY GEOGRAPHIC AREA

Ranking in Order of Importance	Percentage Distribution of Responses: Trade Restrictions*	Investment Regulations (e.g. local content regulations)	Market ** Demands	Labor Cost Advantages	Other Factors	Total, All Responses
All Areas:						
1 (most)	20	11	57	5	7	100
2	35	32	14	9	10	100
3	31	21	13	28	6	100
4	11	24	12	48	5	100
5 (least)	2	27	4	48	19	100
Negligible	15	29	10	39	7	100
Canada:						
1 (most)	23	6	59	4	8	100
2	38	29	11	11	11	100
3	24	27	14	29	6	100
4	6	26	13	52	3	100
5 (least)	0	33	11	44	11	100
Negligible	18	31	11	35	5	100
W. Hemisphere:						
1 (most)	18	20	52	4	6	100
2	30	36	22	6	6	100
3	36	21	16	24	3	100
4	16	20	7	51	7	100
5 (least)	0	22	0	44	33	100
Negligible	11	17	9	51	11	100
W. Europe:						
1 (most)	22	3	63	7	4	100
2	38	27	14	10	11	100
3	31	21	10	33	5	100
4	5	31	10	44	10	100
5 (least)	0	50	0	25	25	100
Negligible	10	39	5	39	7	100
Far East:						
1 (most)	19	16	53	6	6	100
2	34	33	11	11	10	100
3	34	18	10	30	8	100
4	11	25	19	42	3	100
5 (least)	0	20	10	50	20	100
Negligible	14	25	17	36	8	100
Rest of World:						
1 (most)	20	12	57	3	8	100
2	32	37	12	8	11	100
3	29	21	17	23	10	100
4	14	17	11	54	3	100
5 (least)	8	17	0	67	8	100
Negligible	18	28	10	38	8	100

* Includes tariffs, quotas, and other nontariff barriers to trade.

** Includes major differences between domestic and foreign product specifications, product perishability, and service and distribution requirements.

Source: ECAT Survey

Table 30

MAJOR DETERMINANTS OF FOREIGN INVESTMENT DECISIONS
RANKED IN ORDER OF SIGNIFICANCE, BY GEOGRAPHIC AREA

Ranking in Order of Importance	Percentage Distribution of Responses: Trade Restrictions*	Investment Regulations (e.g. local content regulations)	Market** Demands	Labor Cost Advantages	Other Factors
All Areas:					
1 (most)	21	11	59	5	21
2	36	33	15	9	30
3	26	18	11	23	16
4	6	14	7	28	9
5 (least)	0	4	1	7	8
Negligible	10	20	7	27	15
Total Responses	100	100	100	100	100
Canada:					
1 (most)	24	6	61	4	29
2	37	28	10	10	33
3	18	19	10	21	14
4	3	12	6	24	5
5 (least)	0	4	1	6	5
Negligible	18	30	10	34	14
Total Responses	100	100	100	100	100
W. Hemisphere:					
1 (most)	19	20	54	5	20
2	31	36	23	6	20
3	33	18	14	21	10
4	11	14	5	35	15
5 (least)	0	2	0	6	15
Negligible	6	9	5	27	20
Total Responses	100	100	100	100	100
W. Europe:					
1 (most)	23	3	66	8	13
2	41	29	15	11	35
3	27	18	9	29	13
4	3	18	6	26	17
5 (least)	0	6	0	3	9
Negligible	6	25	3	24	13
Total Responses	100	100	100	100	100
Far East:					
1 (most)	20	17	56	7	20
2	36	34	12	12	30
3	29	15	8	25	20
4	7	15	12	25	5
5 (least)	0	3	2	8	10
Negligible	8	15	10	22	15
Total Responses	100	100	100	100	100
Rest of World:					
1 (most)	20	12	59	3	23
2	35	40	14	8	32
3	23	17	14	18	23
4	8	10	7	32	5
5 (least)	2	3	0	13	5
Negligible	12	18	7	25	14
Total Responses	100	100	100	100	100

* Includes tariffs, quotas, and other nontariff barriers to trade.

** Includes major differences between domestic and foreign product specifications, product perishability, and service and distribution requirements.

Source: ECAT Survey

MERCHANDISE TRADE BALANCE OF U. S. FIRMS AND THEIR FOREIGN AFFILIATES, 1960, 1965, AND 1970
(Value in Million $)

Industry Group	Merchandise Exports from the U. S.			Merchandise Imports into the U. S.			Net Trade Balance			Avg. Annual Change
	1960	1965	1970	1960	1965	1970	1960	1965	1970	1960-70
Food & Kindred Products	739.7	922.3	1,204.8	439.6	567.1	666.0	300.1	355.2	538.8	+6.0%
Paper & Allied Products	144.0	256.0	586.0	226.0	341.6	461.2	-82.0	-85.6	124.8	+13.4%
Chemicals & Allied Products	280.7	353.7	490.8	148.0	231.8	360.1	132.7	121.9	130.7	-.2%
Primary & Fab. Metal Industries	86.3	128.0	269.6	55.4	89.1	174.1	30.9	38.9	95.5	+11.9%
Machinery, Except Electrical	846.4	1,479.8	2,525.6	34.2	75.1	311.2	812.2	1,404.7	2,214.4	+10.5%
Machinery, Electrical	175.1	325.1	498.7	17.1	51.9	159.5	158.0	273.2	339.2	+7.9%
Motor Vehicles & Parts	1,066.6	1,855.2	3,509.0	117.9	344.7	2,952.8	948.7	1,510.5	556.2	-5.2%
Aircraft & Parts	611.2	713.9	2,134.2	24.2	53.6	179.5	587.0	660.3	1,954.7	+8.8%
Instruments & Related Products	142.2	282.3	563.7	25.3	40.0	85.2	116.9	242.3	478.5	+15.1%
All Other Industries	228.7	300.5	374.1	57.9	95.2	170.8	170.8	205.3	203.3	+1.8%
TOTAL, All Respondents	4,320.9	6,616.8	12,156.5	1,145.6	1,890.1	5,520.4	3,175.3	4,726.7	6,636.1	+7.7%
TOTAL, Excluding Motor Vehicles & Parts	3,254.3	4,761.6	8,647.5	1,027.7	1,545.4	2,567.6	2,226.6	3,216.2	6,079.9	+10.6%
TOTAL, U. S. Trade in Manufactured Products 1/	15,706.0	21,389.0	35,168.0	9,539.0	14,911.0	32,075.0	6,167.0	6,478.0	3,093.0	-6.6%
Ratio of Respondent Totals to All Manufacturing:										
All Industries	27.5%	30.9%	34.6%	12.0%	12.7%	17.2%	51.5%	73.0%	214.5%	2/
All Ind. except Motor Vehicles & Parts	20.7%	22.3%	24.6%	10.8%	10.4%	8.0%	36.1%	49.6%	196.6%	2/

1/ As reported by the Bureau of Census on a Standard Industrial Classification Basis.
2/ Not meaningful.

Source: ECAT Survey.

MERCHANDISE TRADE BALANCE BY MAJOR INDUSTRY GROUP
(In Millions of Dollars)
1960, 1965, 1970

SIC		1960	1965	1970	Absolute Change 1960-70	Percent Change 1960-65	Percent Change 1965-70	Percent Change 1960-70
35	Machinery, Except Electrical	2,695	4,015	5,467	+2,772	+49.0%	+36.2%	+102.8%
28	Chemicals & Allied Products	1,609	1,960	2,741	+1,132	+21.8%	+39.8%	+70.4%
372	Transport Equipment, Except Motor Vehicles & Parts	1,362	1,335	2,489	+1,127	-2.0%	+86.4%	+82.7%
38	Instruments & Related Products	244	407	638	+ 394	+66.8%	+56.8%	+161.5%
34	Fabricated Metal Products	310	531	563	+ 253	+71.3%	+6.0%	+81.6%
19	Ordnance & Accessories	385	358	376	- 9	-7.0%	+5.0%	-2.3%
36	Machinery, Electrical	717	765	347	- 370	+6.7%	-54.6%	-51.6%
21	Tobacco Manufactures	92	118	174	+ 82	+28.3%	+47.5%	+89.1%
27	Printing & Publishing	100	153	157	+ 57	+53.0%	+2.6%	+57.0%
32	Stone, Clay & Glass Products	-37	14	-97	- 60	+137.8%	-792.9%	-162.2%
25	Furniture & Fixtures	+13	-17	-192	+ 205	-230.8%	-1,029.4%	-1,576.9%
24	Lumber and Wood Products	-357	-408	-300	+ 57	-14.3%	+26.5%	+16.0%
30	Rubber and Plastic Products	59	84	-320	- 379	+42.4%	-481.0%	-642.4%
26	Paper & Allied Products	-635	-659	-442	+ 193	-3.8%	+32.9%	+30.4%
22	Textile Mill Products	-306	-475	-598	- 292	-55.2%	-25.9%	-95.4%
32	Leather & Leather Products	-80	-196	-638	- 558	-145.0%	-225.5%	-697.5%
39	Misc. Manufactured Products	-161	-239	-689	- 528	-48.4%	-188.3%	-328.0%
29	Petroleum & Coal Products	-162	-468	-1,027	- 865	-188.9%	-119.4%	-534.0%
23	Apparel & Related Products	-108	-365	-1,036	- 928	-238.0%	-183.8%	-859.3%
20	Food & Kindred Products	-223	80	-1,050	- 827	+135.9%	-1,412.5%	-370.9%
33	Primary Metal Products	-172	-1,360	-1,550	-1,378	-690.7%	-14.0%	-801.2%
371	Motor Vehicles & Parts	635	675	-2,364	-2,999	+6.3%	-450.2%	-472.3%

Source: U. S. Department of Commerce, Bureau of Census.

Table 32.

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RATIO OF IMPORTS TO NEW SUPPLY*, BY MAJOR INDUSTRY GROUP
1960-1970

SIC Group	Industry	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
	All Manufacturing: Total	2.5%	2.5%	2.6%	2.7%	2.7%	2.9%	3.4%	3.5%	4.1%	4.2%	4.7%
20	Food & Kindred Products	2.6%	2.6%	2.8%	3.0%	2.7%	2.6%	3.0%	3.1%	3.3%	3.2%	3.4%
21	Tobacco Manufactures	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.2%	0.2%	0.3%
22	Textile Mill Products	4.4%	4.1%	4.5%	4.6%	4.2%	4.5%	4.6%	3.9%	4.1%	4.0%	4.5%
23	Apparel & Related Products	2.2%	1.8%	2.3%	2.3%	2.6%	2.9%	3.1%	3.1%	3.8%	4.5%	5.2%
24	Lumber & Wood Products	6.1%	6.3%	6.0%	6.7%	6.5%	6.4%	6.7%	6.3%	7.5%	7.7%	7.1%
25	Furniture & Fixtures	0.5%	0.5%	0.5%	0.5%	0.7%	0.8%	1.1%	1.2%	1.6%	2.4%	2.9%
26	Paper & Allied Products	6.7%	6.6%	6.5%	6.2%	6.4%	6.3%	6.4%	6.0%	5.9%	6.1%	5.8%
27	Printing & Publishing Products	0.3%	0.3%	0.4%	0.4%	0.4%	0.4%	0.5%	0.5%	0.5%	0.5%	0.7%
28	Chemicals & Allied Products	1.4%	1.4%	1.5%	1.4%	1.5%	1.7%	1.9%	1.9%	2.1%	2.2%	2.5%
29	Petroleum & Coal Products	3.8%	3.9%	4.2%	4.2%	4.2%	4.8%	4.8%	4.6%	4.8%	5.0%	5.5%
30	Rubber & Plastic Products	1.9%	1.6%	1.5%	1.4%	1.5%	1.6%	1.8%	2.1%	2.8%	3.1%	3.6%
31	Leather & Leather Products	3.2%	3.3%	4.2%	4.2%	4.6%	5.2%	5.7%	6.7%	8.4%	9.8%	10.6%
32	Stone & Clay Glass Products	2.1%	2.0%	2.2%	2.0%	2.1%	2.1%	2.4%	2.4%	2.7%	2.9%	3.0%
33	Primary Metal Products	4.1%	3.9%	4.1%	4.4%	4.5%	5.4%	5.7%	6.1%	7.6%	6.0%	6.6%
34	Fabricated Metal Products	0.9%	0.8%	0.9%	0.8%	1.0%	1.1%	1.3%	1.3%	1.6%	1.6%	1.9%
35	Machinery, Except Electrical	1.6%	1.6%	1.8%	1.9%	2.0%	2.4%	2.7%	3.1%	3.3%	3.6%	4.1%
36	Electrical Machinery	1.3%	1.5%	1.7%	1.7%	1.8%	2.2%	2.8%	3.0%	3.7%	4.3%	4.9%
37	Transportation Equipment, Total	1.4%	1.2%	1.3%	1.3%	1.6%	1.8%	3.1%	3.9%	5.2%	6.1%	7.3%
	371 Motor Vehicles & Parts	1.9%	1.4%	1.5%	1.5%	1.9%	1.9%	3.8%	5.8%	7.5%	8.7%	10.8%
	372 Transportation, Other	0.6%	1.1%	1.0%	0.9%	1.0%	1.5%	1.9%	1.5%	1.7%	1.9%	2.4%
38	Instruments & Related Products	2.9%	3.1%	3.7%	3.5%	4.0%	4.0%	4.2%	4.1%	4.4%	4.8%	5.2%
39	Miscellaneous Mfg. Products	6.2%	5.4%	6.1%	6.1%	6.4%	6.9%	7.6%	8.1%	9.2%	9.7%	10.4%
19	Ordnance & Accessories	0.5%	0.4%	0.5%	0.4%	0.6%	0.7%	0.7%	0.8%	1.0%	1.0%	0.8%

*New supply equals U. S. manufacturers' shipments plus imports.

Source: Computed from Official Statistics of the U. S. Department of Commerce, Bureau of Census.

RATIO OF U. S. EXPORTS TO U. S. MANUFACTURERS' SHIPMENTS, BY MAJOR INDUSTRY GROUP
1960-1970

SIC Group	Industry	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
	All Manufacturing: Total	4.2%	4.3%	4.3%	4.3%	4.6%	4.3%	4.4%	4.5%	4.6%	4.9%	5.4%
20	Food & Kindred Products	2.3%	2.3%	2.5%	2.6%	2.9%	2.8%	2.5%	2.4%	2.4%	2.4%	2.5%
21	Tobacco Manufactures	2.3%	2.4%	2.6%	2.7%	2.8%	2.6%	2.7%	2.8%	3.3%	3.0%	3.5%
22	Textile Mill Products	2.4%	2.3%	2.0%	2.0%	2.0%	2.1%	2.0%	1.9%	1.6%	1.8%	2.1%
23	Apparel & Related Products	1.5%	1.3%	1.3%	1.2%	1.2%	1.1%	1.1%	1.0%	1.0%	1.0%	1.1%
24	Lumber & Wood Products	2.2%	2.3%	2.0%	2.5%	2.7%	2.9%	3.1%	3.7%	4.2%	4.4%	5.3%
25	Furniture & Fixtures	0.8%	0.7%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%
26	Paper & Allied Products	2.9%	3.0%	2.9%	3.1%	3.4%	3.2%	3.3%	3.4%	3.7%	3.7%	4.4%
27	Printing & Publishing Products	1.0%	1.0%	1.0%	1.1%	1.2%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%
28	Chemicals & Allied Products	7.5%	7.3%	7.2%	6.9%	7.7%	6.9%	7.0%	7.1%	7.6%	7.3%	8.2%
29	Petroleum & Coal Products	3.0%	2.8%	2.7%	2.9%	2.8%	2.5%	2.6%	2.5%	2.5%	2.1%	2.0%
30	Rubber & Plastic Products	2.7%	2.5%	2.4%	2.4%	2.5%	2.4%	2.3%	2.1%	2.2%	2.1%	1.9%
31	Leather & Leather Products	1.3%	1.6%	1.3%	1.4%	1.4%	1.3%	1.3%	1.2%	1.3%	1.2%	1.1%
32	Stone & Clay Glass Products	1.9%	1.9%	1.9%	1.9%	2.2%	2.3%	2.3%	2.3%	2.3%	2.4%	2.5%
33	Primary Metal Products	3.7%	3.0%	2.7%	2.7%	3.0%	2.7%	2.4%	2.4%	2.6%	3.5%	4.2%
34	Fabricated Metal Products	2.4%	2.5%	2.8%	2.7%	2.7%	3.1%	3.4%	3.1%	3.3%	3.3%	3.2%
35	Machinery, Except Electrical	12.0%	13.2%	12.8%	12.5%	13.1%	12.6%	11.2%	11.5%	11.6%	12.1%	14.0%
36	Electrical Machinery	4.4%	4.5%	4.5%	4.6%	4.9%	4.5%	4.5%	4.7%	4.9%	5.5%	5.8%
37	Transportation Equipment, Total	5.5%	5.6%	5.4%	4.8%	5.0%	4.6%	5.0%	6.4%	6.9%	7.5%	8.0%
	371 Motor Vehicles & Parts	4.0%	4.2%	3.9%	3.9%	4.3%	3.3%	4.4%	6.0%	5.9%	6.5%	6.9%
	372 Transportation, Other	8.0%	7.5%	8.0%	6.4%	6.4%	7.1%	6.0%	6.9%	8.4%	8.9%	9.4%
38	Instruments & Related Products	7.1%	8.5%	9.6%	9.7%	10.1%	9.5%	9.8%	9.8%	9.5%	9.9%	10.7%
39	Miscellaneous Mfg. Products	3.4%	3.3%	3.1%	3.6%	3.7%	4.2%	4.7%	4.6%	4.8%	5.0%	4.9%
19	Ordnance & Accessories	13.4%	10.9%	7.9%	9.4%	8.9%	8.1%	7.8%	3.8%	3.5%	4.9%	4.1%

Source: Computed from Official Statistics of the U. S. Department of Commerce, Bureau of Census.

Table 34

U.S. MANUFACTURERS SHIPMENTS BY MAJOR INDUSTRY GROUP 1960-70
(Value in millions of dollars)

SIC Group	Industry	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	Percent change 1960-65	1965-70	1960-70
	All Manufacturing: Total	369,555	370,748	397,353	420,387	448,021	492,041	538,351	557,498	603,439	643,545	653,145	33	33	77
20	Food & Kindred Products	62,292	64,673	65,732	68,455	71,586	74,304	79,658	83,974	87,381	93,550	99,767	19	34	60
21	Tobacco Manufactures Mfgs.	4,339	4,504	4,533	4,521	4,655	4,646	4,772	4,904	4,938	5,151	5,464	7	18	26
22	Textile Mill Products	13,727	13,999	15,179	15,179	15,734	18,294	19,593	19,817	21,941	23,112	22,297	33	22	62
23	Apparel & Related Products	13,427*	15,078	16,100	17,097	17,901	18,953	19,971	21,327	22,649	24,250	23,527*	41	24	75
24	Lumber & Wood Products	8,252*	7,988	9,427	9,200	9,882	10,298	10,720	11,205	12,870	14,009	13,020*	25	26	58
25	Furniture & Fixtures	4,993*	5,054	5,548	5,884	6,309	6,880	7,537	7,750	8,458	9,252	8,170*	38	19	64
26	Paper & Allied Products	14,619	14,856	15,669	16,356	17,191	18,548	20,414	20,969	22,314	24,057	25,192	27	36	72
27	Printing & Publishing Products	13,937*	14,972	15,616	16,166	17,337	18,620	20,202	21,738	23,190	25,068	26,173*	34	41	88
28	Chemicals & Allied Products	26,585	27,290	29,273	31,778	34,261	37,477	40,787	42,144	45,613	48,153	48,763	41	30	83
29	Petroleum & Coal Products	16,764	16,854	17,193	18,003	18,348	19,112	20,415	22,046	23,199	24,412	26,604	14	39	59
30	Rubber & Plastic Products	7,677	7,755	8,517	9,111	9,716	10,863	11,974	12,759	14,382	15,733	17,502	42	61	128
31	Leather & Leather Products	4,109*	4,186	4,307	4,210	4,414	4,641	5,033	5,169	5,486	5,562	5,929*	13	28	44
32	Stone & Clay Glass Products	11,089	11,034	11,523	12,304	12,957	13,946	14,629	14,448	15,789	17,074	17,746	26	27	60
33	Primary Metal Products	32,433	31,659	33,642	35,429	40,039	45,295	49,530	46,724	50,327	55,153	55,740	40	23	72
34	Fabricated Metal Products	20,742	20,783	22,266	23,077	24,903	27,529	30,857	34,585	37,347	39,579	41,920	33	52	102
35	Machinery, Except Electrical	25,843	25,703	28,283	30,373	35,066	39,242	46,661	48,543	50,629	55,649	56,135	52	43	117
36	Electrical Machinery	23,513	25,640	28,466	29,847	39,799	35,160	40,805	43,349	46,466	49,123	50,819	50	45	116
37	Transportation Equipment, Total	49,571	45,931	53,478	58,489	60,655	71,361	75,320	73,179	84,467	87,093	81,173			
	371 Motor Vehicles & Parts	30,910	26,776	33,718	37,175	38,550	47,665	47,248	40,353	49,589	51,524	45,113	54	- 5	46
	372 Transportation, Other	18,661	19,155	19,760	21,314	22,105	23,696	28,072	32,826	34,878	35,569	36,060	27	52	93
38	Instruments & Related Products	5,911	5,604	5,678	6,117	6,603	7,624	8,829	9,914	10,902	11,726	12,153	29	59	106
39	Miscellaneous Mfg. Products	5,096*	5,833	6,110	6,495	6,889	7,541	7,971	8,311	8,945	9,661	10,328*	48	37	103
19	Ordnance & Accessories	2,985*	3,417	3,911	4,784	4,443	4,850	6,580	9,268	10,993	10,769	11,512*	62	137	286

Source: Computed from Official Statistics of the U.S. Department of Commerce, Bureau of Census.

EXPORTS OF DOMESTIC MERCHANDISE (AT PORT)
(Value in millions of dollars)

SIC Group	Industry	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	Percent change 1960-65	1965-70	1960-70
	All Manufacturing: Total	15,706	15,824	16,945	17,876	20,425	21,389	23,453	24,986	28,030	31,673	35,168	36	64	124
20	Food & Kindred Products	1,452	1,480	1,666	1,810	2,093	2,088	2,014	2,020	2,067	2,250	2,512	44	20	73
21	Tobacco Manufactures Mfgs.	98	108	118	120	132	123	130	137	162	156	191	26	55	95
22	Textile Mill Products	327	320	300	307	340	377	400	381	356	418	461	15	22	41
23	Apparel & Related Products	201	190	202	199	217	203	224	206	220	242	251	1	24	25
24	Lumber & Wood Products	181	184	187	229	264	302	334	419	536	613	689	67	128	281
25	Furniture & Fixtures	38	34	32	33	36	39	44	46	49	52	48	3	23	26
26	Paper & Allied Products	419	448	453	505	592	594	669	714	817	886	1,106	42	86	164
27	Printing & Publishing Products	139	152	163	179	207	233	270	287	300	320	333	68	43	140
28	Chemicals & Allied Products	1,997	1,990	2,103	2,178	2,631	2,597	2,851	2,980	3,446	3,513	3,997	30	54	100
29	Petroleum & Coal Products	498	472	471	525	514	487	521	551	579	502	533	2	9	7
30	Rubber & Plastic Products	204	191	206	217	247	259	280	271	319	334	341	27	32	67
31	Leather & Leather Products	55	68	54	61	62	61	66	64	70	68	64	11	5	16
32	Stone & Clay Glass Products	206	206	217	237	280	315	340	338	360	403	445	53	41	116
33	Primary Metal Products	1,198	958	905	951	1,210	1,203	1,191	1,125	1,304	1,930	2,366	-	97	97
34	Fabricated Metal Products	488	518	633	624	662	851	1,060	1,055	1,231	1,308	1,362	74	60	179
35	Machinery, Except Electrical	3,107	3,403	3,632	3,810	4,581	4,964	5,222	5,579	5,878	6,722	7,872	60	59	153
36	Electrical Machinery	1,034	1,148	1,280	1,366	1,511	1,569	1,822	2,028	2,256	2,712	2,972	52	89	187
37	Transportation Equipment, Total	2,719	2,553	2,876	2,808	3,063	3,283	3,750	4,680	5,832	6,509	6,487	21	98	139
	371 Motor Vehicles & Parts	1,235	1,125	1,304	1,441	1,659	1,593	2,074	2,407	2,908	3,343	3,094	29	94	151
	372 Transportation, Other	1,484	1,428	1,572	1,367	1,404	1,690	1,676	2,273	2,924	3,166	3,393	14	101	129
38	Instruments & Related Products	419	474	544	596	666	727	869	976	1,035	1,163	1,299	74	79	210
39	Miscellaneous Mfg. Products	173	190	192	237	258	319	371	380	426	484	507	84	59	193
19	Ordnance & Accessories	401	373	309	452	396	391	516	351	390	529	473	-3	21	18
		353	368	406	434	463	403	509	395	397	562	858	14	113	143

Source: Computed from Official Statistics of the U.S. Department of Commerce, Bureau of Census.

IMPORTS FOR CONSUMPTION (FOB FOREIGN COUNTRY)
(Value in millions of dollars)

SIC Group	Industry	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1960-65	1965-70	1960-70
	All Manufacturing: Total	9,539	9,357	10,689	11,466	12,537	14,911	18,724	20,269	25,738	28,553 1/	32,075 1/	56	115	236
20	Food & Kindred Products	1,675	1,698	1,899	2,121	1,972	2,008	2,452	2,689	3,007	3,115	3,562	20	77	113
21	Tobacco Manufactures	6	5	3	4	6	5	7	7	11	12	17	-20	240	183
22	Textile Mill Products	633	600	711	759	754	852	942	799	934	970	1,059	35	24	67
23	Apparel & Related Products	309	282	373	399	481	568	637	692	900	1,149	1,287	84	127	317
24	Lumber & Wood Products	538	535	606	662	686	710	772	751	1,043	1,162	989	32	39	84
25	Furniture & Fixtures	25	25	30	32	43	56	82	94	140	230	240	124	329	860
26	Paper & Allied Products	1,054	1,047	1,095	1,083	1,185	1,253	1,399	1,346	1,390	1,559	1,548	19	24	47
27	Printing & Publishing Products	39	45	55	64	75	80	100	105	116	136	176	105	120	351
28	Chemicals & Allied Products	388	398	448	462	523	637	792	818	979	1,067	1,256	64	97	224
29	Petroleum & Coal Products	660	690	761	780	809	955	1,022	1,056	1,182	1,297	1,560	45	63	136
30	Rubber & Plastic Products	145	123	126	134	151	175	217	279	416	510	661	21	278	356
31	Leather & Leather Products	135	141	188	184	213	257	307	370	506	603	702	90	173	420
32	Stone & Clay Glass Products	243	221	254	251	277	301	360	353	444	511	542	24	80	123
33	Primary Metal Products	1,370	1,294	1,434	1,624	1,868	2,563	3,009	3,048	4,119	3,514	3,916	87	53	186
34	Fabricated Metal Products	178	166	193	191	158	320	394	466	589	663	799	80	150	349
35	Machinery, Except Electrical	412	422	508	573	719	949	1,309	1,551	1,716	2,085	2,405	130	153	484
36	Electrical Machinery	317	384	484	517	579	804	1,179	1,328	1,793	2,230	2,625	154	226	728
37	Transportation Equipment, Total	722	579	710	752	977	1,273	2,388	2,978	4,599	5,635	6,362	76	300	781
	371 Motor Vehicles & Parts	600	370	506	562	755	918	1,843	2,481	4,000	4,932	5,458	53	495	810
	372 Transportation, Other	122	209	204	190	222	355	545	497	599	703	904	191	155	641
38	Instruments & Related Products	175	181	217	223	274	320	384	425	505	590	661	83	107	278
39	Miscellaneous Mfg. Products	334	334	400	419	472	558	660	736	907	1,034	1,196	67	114	258
19	Ordnance & Accessories	16	15	19	19	28	33	45	79	108	110	97	106	194	506
		165	172	175	213	187	238	269	298	334	370 2/	416 2/	44	75	152

Source: Computed from Official Statistics of the U. S. Department of Commerce, Bureau of Census.

1/ Includes estimates of imports that were not allocated to specific industries or to the total. In prior years these imports were included in the All Manufacturing totals.

2/ Estimated.

NET TRADE BALANCE
(Value in millions of dollars)

SIC Group	Industry	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
	All Manufacturing: Total	6,167	6,467	6,256	6,410	7,888	6,478	4,729	4,717	2,292	3,120	3,093
20	Food & Kindred Products	- 223	- 218	- 233	- 311	121	80	- 438	- 669	- 940	- 865	-1,050
21	Tobacco Manufactures	92	103	115	116	126	118	123	130	151	144	174
22	Textile Mill Products	- 306	- 280	- 411	- 452	- 414	- 475	- 541	- 418	- 578	- 552	- 598
23	Apparel & Related Products	- 108	- 92	- 171	- 200	- 264	- 365	- 413	- 486	- 680	- 907	-1,036
24	Lumber & Wood Products	- 357	- 351	- 419	- 433	- 422	- 408	- 438	- 332	- 507	- 549	- 300
25	Furniture & Fixtures	13	9	2	1	- 7	- 17	- 38	- 48	- 91	- 178	- 192
26	Paper & Allied Products	- 635	- 599	- 642	- 578	- 593	- 659	- 730	- 632	- 573	- 673	- 442
27	Printing & Publishing Products	100	107	108	115	132	153	170	182	184	184	157
28	Chemicals & Allied Products	1,609	1,592	1,655	1,716	2,108	1,960	2,059	2,162	2,467	2,446	2,741
29	Petroleum & Coal Products	- 162	- 218	- 290	- 255	- 295	- 468	- 501	- 505	- 603	- 795	-1,027
30	Rubber & Plastic Products	59	68	80	83	96	84	63	- 8	- 97	- 176	- 320
31	Leather & Leather Products	- 80	- 73	- 134	- 123	- 151	- 196	- 241	- 306	- 436	- 535	- 638
32	Stone & Clay Glass Products	- 37	- 15	- 37	- 14	3	14	- 20	- 15	- 84	- 108	- 97
33	Primary Metal Products	- 172	- 336	- 529	- 673	- 658	-1,360	-1,818	-1,923	-2,815	-1,584	-1,550
34	Fabricated Metal Products	310	352	440	433	404	531	666	589	642	645	563
35	Machinery, Except Electrical	2,695	2,981	3,124	3,237	3,862	4,015	3,913	4,028	4,162	4,637	5,467
36	Electrical Machinery	717	764	796	849	932	765	643	700	463	482	347
37	Transportation Equipment, Total	1,997	1,974	2,166	2,056	2,086	2,010	1,362	1,702	1,233	874	125
	371 Motor Vehicles & Parts	635	755	798	879	904	675	231	- 74	-1,092	-1,589	-2,364
	372 Transportation, Other	1,362	1,219	1,368	1,177	1,182	1,335	1,131	1,776	2,325	2,463	2,489
38	Instruments & Related Products	244	293	327	373	392	407	485	551	530	573	638
39	Miscellaneous Mfg. Products	- 161	- 144	- 208	- 182	- 214	- 239	- 289	- 356	- 481	- 550	- 689
19	Ordnance & Accessories	385	358	290	433	368	358	471	272	282	419	376
		188	196	231	221	276	165	240	97	63	192	442

Source: Computed from Official Statistics of the U. S. Department of Commerce, Bureau of Census.

EFFECTS OF NON-TRADE TRANSACTIONS ON U. S. BALANCE OF PAYMENTS, 1960 1965 AND 1970
(In Millions of Dollars)

Industry Group	Total Inflows			Total Outflows			Net Contributions to U. S. Balance of Payments			
	1960	1965	1970	1960	1965	1970	1960	1965	1970	Avg. Annual Change 1960-70
Food & Kindred Products	27.0	60.5	96.9	37.9	31.3	65.5	(10.9)	29.2	31.4	--
Paper & Allied Products	19.0	40.4	70.9	12.0	103.3	131.2	7.0	(62.9)	(60.3)	--
Chemicals & Allied Products	55.3	135.3	267.5	15.5	98.1	82.1	39.8	37.2	185.4	16.6
Primary & Fab. Metal Industries	29.5	23.4	90.1	14.3	8.9	160.1	15.2	14.5	(70.0)	--
Machinery, Except Electrical	70.0	287.8	962.8	109.6	434.4	761.6	(39.6)	(146.6)	201.2	21.6
Machinery, Electrical	43.0	73.4	77.5	22.8	36.4	86.4	20.2	37.0	(8.9)	--
Motor Vehicles & Parts	146.3	390.3	485.3	404.3	242.8	287.4	(258.0)	147.5	197.9	--
Aircraft & Parts	1.0	3.0	30.7	0.0	1.0	3.5	1.0	2.0	28.2	95.0
Instruments & Related Products	13.5	30.6	122.7	32.3	26.5	79.7	(18.8)	4.1	43.0	--
All Other Industries	60.4	83.3	154.3	46.5	29.4	85.9	13.9	53.9	68.4	17.3
TOTAL, All Respondents	465.0	1,128.0	2,358.7	695.2	1,012.1	1,743.4	(230.2)	115.9	615.3	16.7

1/ Not meaningful.

Source: ECAT Survey.

Table 40

SOURCES OF FUNDS OF U. S. OWNED FOREIGN MANUFACTURING AFFILIATES, 1963-65 AND 1967-68

	Total Available Funds (Million Dollars)	Plant and Equipment Expenditures (Million Dollars)	Funds Obtained from the United States (Million Dollars)	Ratio of Funds Obtained from United States to: Total Expenditures	Ratio of Funds Obtained from United States to: Plant and Equipment Expenditures
1963	3,392	1,609	288	8.5	17.9
1964	4,928	2,316	499	10.1	21.5
1965	6,595	3,077	1,238	18.8	40.2
1967	5,316	3,437	662	12.5	19.3
1968	6,291	3,130	238	3.4	7.6

SOURCE: U. S. Department of Commerce, Office of Business Economics

EFFECTS OF INTERNATIONAL CORPORATE TRANSACTIONS ON THE U. S. BALANCE OF PAYMENTS, 1960, 1965 AND 1970
(In Millions of Dollars)

Industry Group	Total Inflows			Total Outflows			Net Contribution to U. S. Balance of Payments (+=Net Inflow)			
	1960	1965	1970	1960	1965	1970	1960	1965	1970	Avg. Annual Change 1960-70
Food & Kindred Products	766.7	982.8	1,301.7	477.5	598.4	731.5	289.2	384.4	570.2	7.0
Paper & Allied Products	163.0	296.4	656.9	238.0	444.9	592.4	(75.0)	(148.5)	64.5	11.1
Chemicals & Allied Products	336.0	489.0	758.3	163.5	329.9	442.2	172.5	159.1	316.1	6.2
Primary & Fab. Metal Industries	115.8	151.4	359.7	69.7	98.0	334.2	46.1	53.4	25.5	-5.8
Machinery, Except Electrical	916.4	1,767.6	3,488.4	143.8	509.5	1,072.8	772.6	1,258.1	2,415.6	12.1
Machinery, Electrical	218.1	398.5	576.2	39.9	88.3	245.9	178.2	310.2	330.3	6.4
Motor Vehicles & Parts	1,212.9	2,245.5	3,994.3	522.2	587.5	3,240.2	690.7	1,658.0	754.1	.9
Aircraft & Parts	612.2	716.9	2,164.9	24.2	54.6	183.0	588.0	662.3	1,981.9	12.9
Instruments & Related Products	155.7	312.9	686.4	57.6	66.5	164.9	98.1	246.4	521.5	18.2
All Other Industries	289.1	383.8	528.4	104.4	124.6	256.7	184.7	259.2	271.7	3.9
TOTAL	4,785.9	7,744.8	14,515.2	1,840.8	2,902.2	7,263.8	2,945.1	4,842.6	7,251.4	9.4

Source: ECAT Survey

Table 41

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Table 42

EFFECT OF FOREIGN DIRECT INVESTMENTS ON DOMESTIC INVESTMENT PROGRAM

	Foreign Investments resulted in an increase in domestic investments	Foreign Investments resulted in a decrease in domestic investments	Foreign Investments had no effect on domestic investments
Food & Kindred Products	1	-	10
Paper & Allied Products	3	2	3
Chemical & Allied Products	3	1	6
Primary & Fabricated Metals	-	-	4
Machinery, Except Electrical	7	1	5
Machinery, Electrical	3	-	3
Motor Vehicles & Parts	2	1	3
Other Transportation Equipment	1	-	4
Instruments & Related Products	2	-	2
All other Industries	1	1	5
Total, All Industries	23	6	45
Percentage of Total Responses	31.0%	8.0%	61.0%

Source: ECAT Survey

Table 43

EFFECT OF FOREIGN DIRECT INVESTMENT PROGRAM
ON U.S. FOREIGN TRADE

Industry Group	If Respondent had no Foreign Investments the share of the U.S. Market supplied by Imports for its Industry or Principal Product Lines would probably be:				
	Much Larger	Somewhat Larger	About The Same	Somewhat Smaller	Much Smaller
Food & Kindred Products	-	-	11	-	-
Paper & Allied Products	1	2	5	-	-
Chemical & Allied Products	-	1	9	-	-
Primary & Fabricated Metals	-	-	4	-	-
Machinery, Except Electrical	1	1	6	4	1
Machinery, Electrical	-	1	2	1	2
Motor Vehicles & Parts	-	1	5	-	-
Other Transportation Equipment	-	-	4	1	-
Instruments & Related Products	1	1	2	-	-
All Other Industries	-	2	3	2	-
Total, All Industries	3	9	51	8	3
Percentage of Total Responses	4%	12%	69%	11%	4%

	If Respondent had no Foreign Investments the share of Foreign Markets supplied by U.S. Exports for its Industry or Principal Product Lines would probably be:				
	Much Larger	Somewhat Larger	About The Same	Somewhat Smaller	Much Smaller
Food & Kindred Products	-	2	8	1	-
Paper & Allied Products	-	-	5	2	1
Chemical & Allied Products	-	2	5	1	1
Primary & Fabricated Metals	-	1	1	2	-
Machinery, Except Electrical	-	1	3	2	7
Machinery, Electrical	-	-	-	3	4
Motor Vehicles & Parts	-	-	3	1	2
Other Transportation Equipment	-	1	3	1	-
Instruments & Related Products	-	1	-	1	2
All Other Industries	-	1	3	1	2
Total, All Industries	-	9	31	15	18
Percentage of Total Responses	-	12%	42%	21%	24%

Source: ECAT Survey

Table 44

ESTIMATED PROPORTION OF 1974 SALES IN NEW PRODUCTS
BY MAJOR INDUSTRY GROUP*

Industry Group	Estimated percentage of 1974 sales in new products
Aerospace	31
Motor Vehicles and parts	31
Machinery, except electrical	24
Instruments	23
Electrical Machinery	19
Paper and Pulp	19
Textiles	18
Fabricated Metals	15
Transport equipment, except aircraft and motor vehicles	15
Stone, clay and glass	14
Chemicals	13
Rubber	12
Nonferrous metals	10
Food and beverages	10
Iron and steel	8
Petroleum	7
Durable goods, average	20
Non Durable goods, average	11
All manufacturing industries, average	16

*Based on survey conducted in early 1971.

Source: McGraw-Hill, Department of Economics

Table 45

DIRECTION OF TECHNOLOGY TRANSFER BY
MULTINATIONAL CORPORATIONS, BY MAJOR INDUSTRY GROUP
1960-1970

Industry Group	Firms Transferring Manufacturing Technology Abroad[1] Number	Firms Transferring Manufacturing Technology Abroad[1] % of Total Firms in Industry Group	Firms Obtaining Manufacturing Technology from Abroad[2] Number	Firms Obtaining Manufacturing Technology from Abroad[2] % of Total Firms in Industry Group
Food & Kindred Products 11 Respondents	7	64	6	55
Paper & Allied Products 8 Respondents	5	63	3	38
Chemical & Allied Products 10 Respondents	10	100	10	100
Primary Fabricated Metals 4 Respondents	4	100	2	50
Machinery, Except Electrical 13 Respondents	11	85	7	54
Machinery, Electrical 6 Respondents	6	100	5	83
Motor Vehicles & Parts 6 Respondents	6	100	5	83
Aircraft & Parts Industry 5 Respondents	4	80	5	100
Instruments & Related Products 4 Respondents	3	75	3	75
All Other 7 Respondents	7	100	5	71
TOTAL, All Industries	63	85	51	69

1/ Survey Respondents were asked the following question: "Have you, during the past decade, made your manufacturing technology available to foreign producers on a license, franchise or other commercial basis?"

2/ Survey Respondents were asked the following question: "Has foreign manufacturing technology been made available to you on a license, franchise or other commercial basis during the past decade?"

Source: ECAT Survey.

APPENDIX 8

CONTINUING EDUCATION AS A NATIONAL CAPITAL INVESTMENT

By

HERBERT E. STRINER
Dean, College of Continuing Education
The American University
Washington, D.C.

March 1972

The W. E. Upjohn Institute for Employment Research

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FOR EMPLOYMENT RESEARCH

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The Author

Herbert E. Striner is Dean of the College of Continuing Education at The American University in Washington, D.C. In 1962 he established the Upjohn Institute offices in Washington, D.C., and from 1962 through 1969 served as Director of Program Development of the Institute before becoming Dean. Prior to 1962 Dean Striner was with The Brookings Institution as Director of the Committee on the Problems of the American Community. In the late 1950's he was with the Operations Research Office of Johns Hopkins University and prior to that was with the National Planning Association. While at the National Planning Association, he coauthored a study concerned with the application of input-output economics to regional planning.

Dean Striner served in the United States government with the Office of Chief Economist, the Department of the Interior, and the National Science Foundation at its inception. He served on the review panel for the President's Cabinet Committee on Juvenile Delinquency in 1963-1965, on the Youth Employment Commission of the District of Columbia in 1963-1964, on the Middle-Atlantic Manpower Advisory Committee which advised the Secretaries of Labor and Health, Education, and Welfare in 1966-1969, and in 1966-1967 on the National Manpower Advisory Committee's Panel on Counseling and Selection.

Dean Striner holds A.B. and M.A. degrees from Rutgers—The State University and a Ph.D. degree in economics from Syracuse University. He was a Maxwell Fellow and later a faculty member at the latter institution. He has authored and published over 40 articles and several books, with the range of interests going from theoretical economics to manpower, education, and urban problems. Dean Striner is listed in *Who's Who in America* (37th edition), *American Men of Science,* and *Leaders in Education* (4th edition).

Foreword

The W. E. Upjohn Institute for Employment Research is pleased to join The Ford Foundation in the sponsorship of this publication. Though the role of the Institute in this project is to provide for the publication of a product resulting from a Ford Foundation grant to Herbert E. Striner, its involvement is much more than that. Since Dean Striner was formerly the Director of Program Development at the Institute, we cannot help but feel that this is a publication by one of the Institute's "family."

Interestingly, the title of this study recalls an earlier publication of the Institute, *Manpower Tomorrow*, which reported on a conference in 1966 commemorating the Institute's 20th anniversary. In a main paper for that conference the late Walter Reuther wrote: "Thus, it is essential for full-employment policy that government have adequate tools for influencing capital-investment decisions. In this regard, we can learn much from the experiences in other countries."* Dean Striner, in his report, has moved the term "capital investment" into a definitional frame which, I believe, wisely includes education and training of our labor force. He has shown how other highly developed industrialized countries have taken steps along lines which we may wish to follow, or at least from which we can learn, as we scan future horizons for United States manpower policy.

As the wealthiest, most productive economy in the world, the United States is accustomed to a role of "exporting" funds, goods, technology, and technical aid to developing countries. We have never seen ourselves as an "underdeveloped" country. But in one sense we, as all other countries, are still "developing": we are daily confronted with problems growing out of change, social as well as economic; and we too must look to other countries for ideas and approaches which will enable us to deal more effectively with our problems. To our efforts to cope with the problems of inflation, unemployment, and worker frustration, Dean Striner has brought insight from programs in France, Denmark, and West Germany which suggest exciting, yet practical, solutions to aspects of these problems.

Dean Striner is, as always, direct and frank in this report. In his final chapter, for example, he suggests a radical change in our approach to unemployment insurance; yet it is one which many persons may feel is a very realistic alternative.

---

*Reuther, in Irving H. Siegel, ed., *Manpower Tomorrow* (New York: Augustus M. Kelley, 1967), p. 39.

While the views of the author do not necessarily reflect policies or positions of the Upjohn Institute or of The Ford Foundation, we enthusiastically bring this report to a concerned professional and lay community, which needs the kind of fresh, imaginative reasoning and analysis contained in this study to help move us in the direction of a more effective manpower program.

Ben S. Stephansky
Associate Director

Washington, D.C.
February 1972

Preface

This study was conducted in Europe during the summer of 1971 with funds provided by a travel study grant from the Division of National Affairs of The Ford Foundation and The American University.

As a society becomes increasingly complex socially and economically, the major problem confronting that society is constant readjustment and adaptation. If the society through its political, social, and economic processes does not provide for such adjustment, the result must be major dislocations. And the larger the society, the more serious the repercussions.

In recent years the United States has been confronted by an increasingly urgent series of economic problems. Intractably high levels of unemployment, even during economic recoveries, have accompanied abnormally high levels of inflation. Economic dogmatists have applied classical solutions, with disappointing results. Absent from all of these solutions has been the development of a theory which sees continuing adult education and training as an absolute necessity to a healthy, expanding industrialized society.

In a society of constant change, large numbers of people who remain frozen in their value systems or ways of seeing things become a retarding force in that society. Likewise, in an economy which is based upon technological change, where the rate of change itself is of importance, the presence of a large number of adults whose inadequate level of education or training freezes them out of the new economy also becomes a retarding force in that economy.

Other industrially advanced nations have been aware of this problem, and have done something about it. The wheel has already been invented; we need only decide to use it. In this brief study, I attempt to show how three nations — Denmark, France, and West Germany — have taken steps to deal with the problems of economic growth in an advanced industrialized society by reconceptualizing the role of adult education. In essence they have come to understand that an expanding economy whose expansion depends heavily upon new products, new technologies, and new distributions of incomes must also have a labor force constantly being refitted, retrained, and reeducated to meet these needs. To do less is to invite continuing unemployment, inflation, loss of markets, and a national sense of frustration. To do less is what we in this nation have done to date. To do more, we need only look to the example of three nations which already share many of our basic values and which have comparable life styles or philosophies.

In the first four chapters the components of a new continuing education and training program for this nation are presented. Chapter V gives my own ideas on the basic building blocks of such a program, as well as on the source of funds for financing it. My thesis is (1) that an advanced industrialized society

must see the continuing education, training, and retraining of its labor force as a national capital investment; and (2) without that capital investment, the United States cannot hope to maintain the basis for continuing what had been an impressive historical rate of economic progress up until the 1960's.

Many individuals and organizations were of aid to me during the summer of 1971 while I was conducting this study. Among those to whom I am most indebted are: Dr. Werner Rasmussen and Mr. Paul Lyngbye of the Danish Ministry of Education, Copenhagen, Denmark; Dr. Valentin Siebrecht, President of the State Employment Service of South Bavaria, Munich, West Germany; Dr. Walter Jaisle, Director, Employment Service Office in Munich, West Germany; Mr. Dale E. Good, Labor Attaché, Embassy of the United States, Bonn, West Germany; Dr. Herbert Fenger, Institute of Employment Research, Federal Employment Institution, Erlangen, West Germany; Miss Margarethe Roth and Dr. Anthony Nolde of the Federal Employment Institution, Nürnberg, West Germany; Mr. Amtsrat Ulrich Barnofski, Federal Ministry of Labor and Social Affairs, Bonn, West Germany; Professor Bertrand Schwartz and Mr. Lebouteux, National Ministry of Education, Paris, France; Professor Antoine Leon of the Université René Descartes, Paris, France; Dr. Acher Deleon, Director of the Education Extra-Scolaire, UNESCO, Paris, France; Mr. Bernard Lentaigne, Associate Director, Centre Interentreprises de Formation et d'Études Supérieures et Industrielles, Paris, France; Mr. M. Guyoton, Association Pour la Formation Professionnelle des Adultes, Paris, France; and Mr. P. Rousselle, Régie Nationale des Usines Renault, Paris, France.

Finally, I wish to express my gratitude to an individual whom I have known for many years. She has refined and readied Upjohn Institute manuscripts for many authors. They are all, I am sure, as grateful as I am for Mrs. Katherine H. Ford's patience and editorial competence.

Herbert E. Striner

Washington, D.C.
February 1972

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Appendix A.

Appendix B.

I. Continuing Education and Employment

Approximately a quarter of a million German workers who many years ago completed their normal education and went into the labor market are now for a number of reasons going back into educational and training programs to increase their productivity and effectiveness, according to Dr. Walter Jaisle, Director, Employment Service Office in Munich, West Germany, with whom I talked in Munich on July 7, 1971. The new educational and training programs are directed not only to the economic effectiveness of the individual, but also to the overall sense of meaningful participation in the growing economy and society of West Germany. Dr. Jaisle pointed out that the programs, which provide the means for every German citizen, whether employed or unemployed, to go back into the training situation, have succeeded beyond anyone's wildest imagination. He also indicated that the unemployment rate in Germany at that time was less than 0.5 of 1 percent.

Later that same day I read in the July 7, 1971, international edition of the *Herald Tribune* that the United States Secretary of the Treasury stated that the concept of unemployment going below the 4 percent level was one which was in essence a myth for any normal period in the United States. He concluded that it was only during a period of preparation for war or a national defense effort that an unemployment rate approximating 3 or 4 percent was possible. Aside from the unfortunate defeatism which the secretary's statement portrayed, it is disheartening to compare the typical attitude of officials in the United States with the constructive and realistic attitude in other industrially advanced nations of the world that suitable training and education of adults will alleviate unemployment.

Having participated since 1960 in many of the discussions and evaluations pertaining to manpower training and retraining programs in the United States, I think it can be said quite fairly, without regard to which particular political administration is in Washington, that the major problem of dealing with the unemployed, whether they be skilled individuals or the so-called hard-core unemployed, is the lack throughout the last decade of an all-out effort to deal with the problem of employment or employability. Every one of the manpower programs developed under the aegis of the Department of Labor, the Office of Economic Opportunity, or the Department of Health, Education, and Welfare has in essence been a halfway measure, if even that. Almost every one of the so-called manpower programs has been a demonstration of what *could be done* rather than a major effort to deal with the entire population of the unemployed, underemployed, or about-to-be unemployed. In areas where massive education and training programs have been required, responsible agencies and individuals have continuously balked at providing the level of investment necessary for resources essential to a full-scale effort to educate and train our population. Neither Congress nor the executive branch

seems to understand, or is willing to face up to, the level of commitment required for a truly effective manpower training program.

Nothing is more illustrative of our inadequate concept of dealing with the problem of education and training than the apparent "glut" of teachers in our cities and throughout the nation. At a time when we have increasing numbers of young children whose reading levels indicate a serious gap in our efforts to deal with illiteracy—at a time when not only the reading scores but also the overall level of education of high school graduates are reflecting an inadequate educational process—we are told that there are too many teachers being trained relative to the demands for their services. Nothing could be further from the truth. We are in the midst of an Alice-in-Wonderland situation! Approximately five or six years ago pronouncements by officials in the U.S. Office of Education, as well as other members of the Administration, indicated that they were about to launch a major effort to provide adequate early childhood as well as high school education for all of the children in this nation. Over the last several years the Administration has also supported the idea that there must be a massive effort to deal with the problems of illiteracy as well as preschool education in the United States. Nothing has resulted from these promises; but based on the hope held out by the last several administrations, large numbers of capable, concerned young high school graduates have prepared themselves as teachers. If we had provided the level of education promised by the last several administrations, as well as the amount of funding which was implied, these young people who have prepared themselves to teach in all good faith would now be presented with adequate numbers of jobs. Unfortunately, this Administration and the last one have reneged on the promise of a massive educational effort; as a result, there is indeed a glut of teachers in the marketplace. But the fault lies not with the young people who have prepared themselves for this urgent national need, but with those in our legislative and executive branches who have withdrawn the support for educational programs which they had promised in such glowing terms. Thus we have the irony of an overwhelming need for a service and a glut of that service at the same time!

As a result of our national unwillingness to face up to the investment which we must make in education and training, the nation is beginning to reap the whirlwind it has been sowing. Inflation has in part grown out of a slowing down in productivity gains resulting from (a) lack of training and retraining of the growing numbers of individuals in the nation who are technologically unemployable in the face of jobs demanding skills which they have not been given, and (b) increasing competition in our home markets from foreign products where the manpower pools have been given the training and educational levels necessary to increase productivity. Since the 1960's the United States has had an inferior economic position compared to that of many other nations which have increased their competitive effective-

ness in world markets. As an economist, I would be quick to assert that many factors account for the changes in our ability to produce at low cost and compete effectively with other nations. However, there is an unfortunate link between our failure as an industrialized nation to compete with the rest of the world and our failure to invest in our human resources and upgrade individuals continuously throughout their adult lives so that they can possess the skills necessary to produce and service ever more complicated products.

Steps Forward in Europe

Over the past several years many of the Western European countries have been alert to the need for developing an educational system which continues throughout the life of the individual to provide him with the skills necessary for his own personal gratification as well as the skills which are necessary to the economy. These countries have analyzed the changing matrix of job skills which have accompanied the technological changes in their economies, and they have also been aware of the increasing sense of personal frustration which adults have when they have not been equipped to participate as the economy and the society change.

At the Second Roundtable on Permanent Education in Paris, June 1971, the Council of Europe in their Committee for Out-of-School Education and Cultural Development dealt with the question of moving toward an educational system which continues to act throughout an individual's lifespan. There is general agreement on the following proposition:

> Technical developments, society's needs, increasing leisure and growing individual needs call for a determined drive to reshape adult education into a coherent system geared to the demands of our age.
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> If it is to be fairly shaped, adult education must be seen as a factor making for the transformation of the whole education system with an eye to permanent education. First of all, it is essential for the purposes of permanent education that adults be entitled to adequate time for study, within their normal working hours, and with no loss of pay. This system should be embodied in law or made generally applicable by widespread agreements and specific provisions should be made as to its financing. Permanent education begins with a pre-primary stage designed to offset inequalities resulting from the differing social and cultural family backgrounds. At all levels, it presupposes: 1) a sensible system of study units, freely spaced in time, with considerable freedom of choice; 2) a range of studies ensuring an education which, at all levels, is general, cultural, social and civic; 3) a system of continuous guidance whereby the individual's personal aspirations and society's objective needs may be reconciled; 4) encouragement for creative faculties, spontaneous reactions and critical outlooks, all of which are of immense importance in a highly

organized society in which science and technology predominate; 5) the principle of self-education under the active guidance of teachers by means of the widespread use of up-to-date educational and communications techniques and group dynamics.[1]

This report goes on to state that to a greater or lesser degree all the Council of Europe member countries have adopted the guidelines indicated immediately above, although with variations and differing degrees of success. In July of 1970, as a member of the United States delegation to the Organisation for Economic Co-operation and Development (OECD) international Conference on Continuing Training and Education During Working Life, held in Copenhagen, Denmark, I was impressed by the steps being taken by several of the Western European countries to adopt the principles reflected a year later in the Council of Europe's report *Second Roundtable on Permanent Education.*

Over the past five or six years West Germany has begun to move in the direction of implementing a true permanent education program which fully subsidizes the continuous education, training, and retraining of members of the labor force. In discussions with several of the German delegates, it was obvious that much of the so-called economic miracle which has been taking place in recent years has in part been related to this farsighted effort to provide for the constant and consistent training and education of those individuals in the labor force who wish to be retrained or to continue their education into adult years.

The Danes have for many years in their folk high schools conducted a continuous program of education which was designed specifically to enlarge, in a more fundamental rather than a vocational sense, the concept of involvement in the social and cultural fabric of Danish life. This grew out of the move away from a true monarchy to a constitutional monarchy in the mid-nineteenth century when innovative minds, such as N. S. F. Grundtvig, felt that if the Danes were to be able to govern themselves wisely through a new and more democratic form of government, there had to be a broader educational base. This folk high school movement, an outgrowth of the change in form of government, now exists in Denmark as a basic institution which trains and educates large numbers of Danes for vocational skills as well as managerial skills.

While at the OECD Conference in July of 1970, members of the French delegation announced that an accord had been reached by representatives of relevant French governmental agencies with leaders in labor unions and in

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[1]*Second Roundtable on Permanent Education,* "Towards an Educational System," Council of Europe, Strasbourg, Paris, 8-9 June 1971, pp. 1-2, CCC/EES (71) 48 Revised.

private enterprise. This accord moved to develop as rapidly as possible a continuing adult education program providing the French worker the right, rather than merely an option, to return into the educational system for additional education and training for new skills. In July of 1971 the accord was translated into a new law which enables up to 2 percent of the French labor force to move back into a subsidized educational and training system.

The so-called old world is beginning to take steps far more rapidly than the so-called new world to deal with the problem which has grown out of a series of dramatic changes. To begin with, as we know, since the 1940's there has been a dramatic increase in longevity. Accompanying this increase in longevity, after the 1950's there has been an equally dramatic increase, from all indicators available to us, in the rate of technological change, causing skills to obsolesce more rapidly than they did in earlier years. When one takes these two phenomena together, it becomes rather obvious that unless there is a major change in our educational and training systems, people may live longer but will be plagued by frustration and anxiety. The emotional crises of old age are exacerbated by a lack of skills capable of providing the older person with the means of participating fruitfully in a changing society's new technology. In addition to this rather interesting crossover of two trends (increasing life expectancy and decreasing effectiveness of earlier skills and knowledge), there has also been a pattern of an increasing standard of expectations; that is, people tend to expect more *from* life as well as a greater involvement *in* life.

In the United States during the last decade there has been growing concern with how individuals can become involved more significantly in policy-making which directly affects them. The poverty program and its concern with "maximum feasible participation" of those to whom more services were being extended drew on the earlier experiences of the antijuvenile delinquency program of the early 1960's in which efforts were made to involve more of the young people for whom the program was intended in the actual designing of the program itself. This pattern is not unique to the United States.

In England the open university has given some indication of what the educational future may begin to look like. Already in the United States a number of steps have been taken, and more are being taken at this writing, to develop a university system which will be open not only with respect to entrance requirements but also with regard to where the programs will be conducted. Higher education, therefore, over the next decade will probably make radical innovations and move away from what we have known as higher education in the past. Terms such as "open university" and "university without walls" suggest a resolve to create all sorts of educational programs, running the gamut from preschool tots of age three to 40-, 50-, and 60-year-old students in night courses who will be taught by means of new electronic

devices which eliminate the constant need for face-to-face instruction. This paints a picture which is not solely future oriented, but one which has already begun to take form before our very eyes.

In the summer of 1971 I was able to review the continuing education programs in only Denmark, West Germany, and France. Hence, I offer my apologies to other countries such as Sweden and England which have begun to take meaningful steps in the direction of continuing education. The programs in the three countries which I studied differ greatly from each other, as will be seen in the discussion that follows.

The Critical Imperative: Changing the Timespan for Education

The "time-place-age conformance pattern" of our educational systems and processes is being altered radically. To provide the theoretical underpinning for the proposition that many, many more people can benefit from education, the scientific works of Jerome Bruner and others lead inescapably to the conclusion that unless we develop a continuing education system throughout the life of the individual, we shall continue to waste valuable resources which this society must draw upon increasingly. Interestingly, those who have thought most about the problem of what the learning mechanism is, as well as the relationships among learning, teaching, education, and training, seem to agree that any continuing education program must have as an important segment of that program the fundamental areas of learning, as well as the technological components. Basic understanding as well as technical competence must be seen as being complementary in a system which provides the means for an adult to continue to participate meaningfully in the society of which he is a part.

There should be no conflict in any continuing education program as to whether it will be of a technical, vocational nature or of a fundamental educational nature. Any program which seeks to provide the basis for continuing involvement of the person in the society, of which the economy is but one part, must combine both of these facets. It is as shortsighted in the educational sense to argue that one or the other is to be done as it is to argue in the planning of our cities that either physical planning or social planning is the more important of the two. They are both necessary to *good* planning.

In any discussions of what is being done in the Danish, West German, and French educational systems, or any other educational systems for that matter, with respect to continuing education of adults, it must be made clear that whatever is done to devise a more rational system of education for the adult will have important effects upon education at the earlier ages. There can be no adult education program developed which is seen as being completely separate from education for young children, adolescents, and college-level students. The provision of any new system for education which is

tailored to the needs of individuals who have completed their typical formal education must constitute the development of a basic factor which redesigns and redetermines the fundamental form of the entire educational system from preschool through college.

Typically, we have chosen to see the life of the individual as encompassing three stages with regard to education and to work. To begin with, from birth to about five years of age, we have a vision of a play period. From about six years of age to approximately 18, we have the vision of the young person learning to equip himself with the knowledge necessary for the long journey into an occupation and the earning of his way through the rest of his life. From about 18 on we envision the individual as leaving the area of education in an institutional sense and applying what he has learned during the 12 formal years of education, or 16 years for those who have attended school four more years at the college level. Werner Rasmussen, from Denmark,[2] makes an interesting analogy between education and its functioning as a supply item to the adolescent and young adult for the journey through life.

> With more intensive adult education it may be possible to reduce the pressure on the supplies of education to adolescents and young adults. At the present time, there is everywhere a tendency to overload these supplies, because they are considered the baggage for a lifetime. We can compare it with an expedition to a big desert, — tropical or arctic — where no supply stations of any kind are established. By the time it sets off on its lengthy journey to the desert the expedition must have large supplies of food and other necessities. The situation would be entirely different if there were stations or depots along the route. The lifelong journey should in the future be supported by supply stations. It will thereby be possible to travel more lightly, which means it will not be necessary to load the memories of young people so much. This will at the same time be of great value to the educational processes during these earlier years. It will be an easier task for the teachers to ensure the motivation and attention of their young students.

Using Rasmussen's analogy, I would further suggest that at the present time we attempt to provide the traveler on this journey with a full set of educational provisions necessary for the entire journey, but unfortunately most of the provisions with which we equip the individual are of a perishable quality. By the time the traveler reaches a third or so of his way he finds that the food is no longer in condition to provide nourishment to his mind or to his body. There is an additional point of considerable significance in looking at the potential for a continuing training and retraining program extending throughout the life of the individual. This point has become increasingly

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[2]Werner Rasmussen, *Permanent Education,* The Council of Europe, 1970, p. 422.

significant as studies done by Harold L. Sheppard and Neal Q. Herrick indicate a certain growing sense of frustration and malaise by workers who are employed and apparently receiving sufficient wage incomes and security benefits.[3] Apparently the old adage that "man does not live by bread alone" is being given new significance. There is a growing sense on the part of employed individuals in many instances that life must hold out more for them than the same type of work which, even if it had been interesting at the outset, has become a repetitive experience devoid of the excitement promised by the growing affluence and interest of the social and cultural environment.

I would suggest that one of the important meanings coming out of the work of Sheppard and Herrick, as well as others, is that as individuals live longer and are exposed to more interesting situations by virtue of steady jobs and the ability to travel, by reading more, and by being part of a vicarious experience in exciting faraway places via the television set these individuals see themselves in a humdrum situation—bound to jobs in which they are no longer interested.[4] I would suggest that we must now begin to understand that a change of jobs, rather than remaining in one job for life (as has always been held out to be an indication of the stability of an individual), will become an increasingly new norm. Individuals will look to an education as the key to unlocking a continuously interesting life experience. I would further suggest that the well-educated individual who has gone into one of the professions, and who has changed the nature of his occupation two, three, or four times during his work life, will have to understand that the skilled and semiskilled craftsman will also look upon that pattern of a work and life existence as a normal situation. Increasingly, individuals will begin to seek out the means of moving from one type of work involvement to another.

Unless, as has become the case in a few of the European countries, there is a partnership in the United States among government, business, and labor to help effectuate this somewhat unarticulated need—but need nonetheless, as is becoming evidenced through various patterns of frustration—we shall begin to harbor within the society larger and larger numbers of individuals who, though working, view life as a series of hours of quiet desperation. Confronted with a lack of meaning and involvement with their work, they will return to their homes, which more and more will become places of refuge and solace from a world that offers them little hope for an interesting

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[3]Harold L. Sheppard and Neal Q. Herrick, *Where Have All the Robots Gone?* to be published by The Free Press in 1972.

[4]In a sample of more than 200 male blue-collar workers over 40 years of age, Sheppard found that 36 percent had thought often about making a serious effort to enter a new and different type of occupation, *and* would choose a training or education program making it possible to get a promotion or a better job. In the 40-49 age group alone, the proportion was nearly one-half.

and fruitful life, aside from the basic economics of the work and pay for a job—often very grudgingly done.

National Capital Investment: Human Resources and Technological Change

Finally, in our inevitable move toward a lifetime continuing education program, there is the necessity for complete subsidization of the program, *including economic support to workers and their families* so that they may live according to conditions associated with their normal economic situation, even while in education and training programs. Radical though this idea of an income subsidy may be, the need for it in any meaningful continuing education program will be a major point in this study. Not to provide this income subsidy, as will be shown later, will incur a loss in national income, productivity, and tax income which is greater than the amount of national investment for an effective training and education program.

The need for continuing education has been brought about, to a great degree, by the phenomenal growth in the service industry, which has been observed by economists over the last several years in the United States. This shift toward a service-oriented economy is one of the most important considerations affecting the nature, type, and period of training and education for the young as well as the adults in our society. To be specific, in 1947 the goods-producing industries employed 26.4 million people. At that time the service-producing industries employed 25.4 million people. By 1969, a radical shift in these proportions had taken place: in the goods-producing industries employment stood at 27.8 million while in the service-producing industries employment had skyrocketed to 46 million. It is projected that by 1980 goods production will employ 30 million people, while service production will employ close to 60 million people. This phenomenon represents more than a shift of interest to persons concerned with the composition of the labor force. It represents a tremendous potential for employee mobility as well as constant training to provide for the skills necessary in our changing service-oriented economy. With continuing displacement of labor in the manufacturing industries at the low end of the skill level, persons remaining in the manufacturing industries will have to be provided with the means of acquiring continuous upgrading of their skills. The nature of jobs, although perhaps more repetitious, will probably call for a great deal more in the way of abilities to handle complicated printout electronic mechanisms, indicator mechanisms, and complex monitoring systems. In the service industries, it is obvious that such fields as government (local, state, and federal), wholesale and retail trade, finance, insurance, real estate, transportation, public utilities, health, automotive repair, and air conditioning will require employees whose initial backgrounds and training are fairly extensive and technical, and

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who can participate in continuous upgrading and training in depth, made necessary by constant changes in the nature of the services.

Manufacturing industries, more often than service industries, have been related to specific geographical sites. Such enterprises as mining and timbering, forestry, and agriculture are things-producing, and have obviously been related to specific geographical areas. Automotive production, steel fabrication, and so on have usually been related to specific producing areas. As a result, employees in these types of industries did not have the usual motivation to think in terms of geographical mobility. Indeed, their life styles in terms of purchasing homes and putting roots into a local community reflected the fact that the jobs they were doing tended to be ones which would keep them in a specific area throughout their working lifetime. This is not so in the case of service-producing industries. The trained secretary, the insurance salesman, bank clerk, medical technician, mechanic—all possess a greater degree of physical mobility than do persons typically employed in the manufacturing or goods-producing sector. Hence, these individuals will be freer to move with their families to acquire jobs which are more attractive than the ones that they currently have, even though these jobs may be in the same particular type of industry.

The need, therefore, will be to provide continuously the adult education which is necessary to upgrade individuals and improve their ability to market their skills in any part of this country. This, of course, is a major asset in terms of economic principles. It means that wherever there are surpluses of service workers of a particular type, the workers in those areas will be able to move fairly easily to other areas where there are shortages of individuals with their skills.

Unless we move in the direction of an all-out and massively subsidized continuing education program for adults throughout their lifetimes, our economy will continue to be one which is high cost, economically inefficient, and frustrating to the large numbers of workers who do not possess the economic means to acquire the necessary training and education to keep pace with the changing complexities and technical skill needs of the society of which they are a part. The economic consequences of this projection might well pale in significance when compared to the political implications for this nation.

II. The Danish Experience

The concern in Denmark with adult education is basically, radically different from that which is found in Germany or France. The Danes have a long history of providing a continuing residential education program for adults as a means of acculturating individuals who are primarily rurally oriented into the urban environment. The Germans, however, have been mostly concerned with the means of providing a continuous upgrading of technical skills, with basic education where necessary, in order to serve the needs of the expanding economy. Of course, all the European countries have had, as has the United States, a long history of adult education. Evening classes, which are commonplace in the United States, are equally familiar in many European countries. These classes have always tended to be concerned with the acquisition of technical skills or basic skills (e.g., reading and writing, in order to provide the means for further technical training or occupational training).

The Folk High School

In Denmark, however, the folk high school has an entirely different philosophical foundation and meaning. To begin with, the folk high school concept grew out of the work of N. S. F. Grundtvig. Grundtvig was the great pioneer of the movement which sought to bring to the Danes a sense of enlightenment and involvement in adult education—to broaden the individual and provide every Dane with the means of being a productive individual and in a spiritual, political, and social sense a part of the society.

In Danish education the phrase "oplysningen om livet" (enlightenment on the life of man), or in one word "livsoplysning," is the key to an understanding of the teaching the Danish folk high school has desired and still desires to give.[1]

Grundtvig's idea of the folk high school was tied in very closely with the growing movement of democracy in Denmark in the 1830's. At that time the absolute monarchy moved in the direction of establishing advisory councils and representative governments in the various Danish provinces. It was Grundtvig's philosophy that, with an uneducated mass of people, the ability to govern wisely would obviously be limited. Only if there were developed throughout Denmark a folk high school movement with the broadest type of education and general sense of enlightenment could the people rule intelligently and with the necessary foresight. In the pursuance of this goal, the basic philosophy of the folk high school was to develop conversations rather than lectures. Involvement of the students in discussions and seminars was to be the basis for understanding as well as for education in the more normal

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[1]Ragnar Lund, ed., *Scandinavian Adult Education* (2d ed.; Copenhagen: Det Danske Forlag, 1952), p. 7.

sense. It was, above all, to be a school system to produce a zest for life. Only by the joy of understanding and a sense of creativity in dealing with the fundamental problems of the changing Danish society could adult students be brought into a more meaningful role in the new society and increasingly democratic form of government.

Interestingly, the folk high schools are probably among the most flexible types of institutions in the field of adult education. This extends not only to the design of the curricula, but also to the nature of the principal of each individual school. In Denmark anyone with only seven years of schooling is acceptable as principal of state-subsidized high schools, provided the Board of Governors wishes to employ him. The choice of the principal must finally be approved by the Ministry of Education, but only in very rare cases has approval been withheld because the nominees lacked diplomas. The law stipulates that the principal, as well as each member of his staff, must provide only "a medical certificate issued within the last three months to prove that he is not suffering infectious tuberculosis of the lungs or larynx."

The school is very much a mirror of the personality of the principal. Many of the folk high schools were founded by private individuals who ran them at their own risk. Obviously, this paternalistic form of education has changed in recent years, and is continuing to change. At this time principals of the folk high schools have a more extensive education and experiential background than did principals in the past.

At present, the folk high school program is residential. The courses can vary in length from two weeks to six months. Typically then, you may find a six-month winter course going from November to May, plus a three-month summer school. The courses vary depending upon the school's basic goal and the nature of the student body itself. The rule is that the daily life and curriculum must fulfill several conditions. To begin with, it must be a boarding or residential school with a suitable environment for close association of the principal, staff, and students. Second, the length of the courses must be such that the students will be able to adapt themselves to the school life as something different from their usual environment; otherwise, it is felt that they will not be able to become a part of the new environment. Third, in principle, the folk high school must admit students belonging to all social classes and with widely different previous training. Finally, and most importantly, the curriculum must be concerned with cultural and social or universal interests as well as problems that have to do with vocational interests. At least 24 hours a week, or a little over 50 percent of the total curriculum time, must be spent on courses in general education which include; e.g., the Danish language, ethics, civics, modern world history, history of Denmark, mathematics, philosophy, history of literature, foreign languages, appreciation of music, crime problems in the community, problems of the Middle East, and drama. This list is not completely inclusive.

The minimal age for students in the folk high school is 18; there is no upper limit. There are at present 69 folk high schools located throughout Denmark. The areas of actual vocational interest in the high schools vary tremendously, going all the way from physical training, such as can be found at the Viborg Physical Training High School, to the Lutheran Mission Society High School of Hilleröd. The skills which are taught (accounting for a little less than 50 percent of the curriculum time since fundamental education must account for a little over 50 percent) will often be extended into areas which are not the usual vocational ones. Two of the most notable instances are the high schools at Esbjerg and Roskilde. These schools focus specifically on the training and development of individuals who wish to become leaders in the trade union movement. Their programs provide education and training so that the students may often become the raw materials for shop stewards and leaders in the trade union movement. But interestingly, these schools, although known as centers which are concerned with the advancement and training of union people who will become leaders in the union movement, do not draw students solely from that background. Others may attend these schools without necessarily becoming involved in careers as union leaders. Basically, no matter what the special area of concern in the specific high school may be in terms of vocational skill training, there is a strong backbone of fundamental education which remains as a part of the high school movement.

There has, however, been a fundamental change in most of the folk high schools which have come into existence since 1945—after World War II. Many of these schools no longer provide very much training in vocational subjects; some concern themselves almost solely with general education. This includes the teaching of foreign languages. Since in many of the older folk high schools new principals have replaced the older principals who reflected the older philosophy of combining vocational education with general education, there has been a shift away from vocational education. This is an important consideration when one understands that the folk high schools still have a very large proportion of students coming from the predominately agricultural areas of Denmark. The proportion is not as high as it was before World War II, but nevertheless the folk high schools do serve an important function of broadening the educational horizons of rural persons who are increasingly flocking into the metropolitan areas of Denmark.

An interesting reflection which was made by Werner Rasmussen was that although the large majority (close to three-quarters) of the students in the folk high schools are from rural areas, it must not be misunderstood that the folk high schools are essentially a rural institution. Because of the size of Denmark and the close proximity of rural and urban areas, there is a split relationship which many Danish workers have in terms of living in a rural area and working in an urban area. Hence, the folk high schools may serve

as a means of bridging the cultural gap between the rural area and the urban area.

As I indicated earlier, the length of the programs which are offered in the folk high schools varies quite a bit. However, in all cases, the courses themselves are so structured that the school day, indeed the school week, is a very full one. The classes are held Monday through Saturday. They start at about nine in the morning, continue to late in the afternoon, and after supper there are study sessions. Thus, a four- or five-month course would be comparable to a somewhat longer period of education in the United States. These folk high schools are not, however, a major means of dealing with the problems of extensive vocational training or retraining of the adult population. A large majority, indeed almost all, of the students in the folk high school program are young adults who have been neither in the labor force nor in occupations of any sort for very long.

At the present time there are approximately 9,000 students attending the folk high schools throughout Denmark: 56 percent of the students are in the 18-20-year group, 27 percent are in the 21-24-year group, and approximately 60 percent are females.

Other Approaches to the Problem

The programs which deal with continuing adult education involve a series of other types of schools. Some of these programs are subsidized by organizations outside of the state educational system. For example, there are two schools, one located at Arresoehoe and the other at Doegehoe, which are subsidized by the Productivity Foundation and run by the government. The Foundation is an outgrowth of the post-World War II Marshall programs which were designed in part to help industry. It is concerned with increasing managerial and industrial technologies in order for the Danish economy to become more effective. The students at these two schools are foremen and individuals who will be further trained for supervisory functions on the managerial side. Courses vary in length, but the minimal one lasts three weeks. These courses may go on for as long as four or five months. There is much more demand for training than is currently being funded.

In addition to the folk high schools and the two supervisory training schools funded by the Productivity Foundation, an important part of the Danish effort to provide for continuing technical training of their labor force is to be found in the technical schools. Denmark has 60 technical schools which are concerned with leadership training, supervisory training, and middle- and top-management training. They are concerned with specific technical industrial needs. These schools are fully subsidized by the government, and the skilled worker receives a stipend while he attends.

Funding of the Programs and Student Stipends

A worker who attends a folk high school receives a stipend for himself but not for his family. This stipend is set at a maximum of 800 kroner, or at the present rate, about $115 per month. Ordinarily the worker can go to the folk high school only two six-month periods in his lifetime. However, if he wishes to go into a completely different type of work, he may apply for an additional period of attendance in the folk high school. The national government assumes up to 85 percent of the instructional costs of the folk high school; the balance is shared by the various managerial and workers' organizations and the students. Out of a subsidy of a maximum of 800 kroner per month, the student is expected while in dormitory residence to contribute to the cost of the program by paying a part of his stipend, usually for some of the boarding costs.

In the technical school the national government pays 65 percent of the budget while the balance is shared in a rather complicated arrangement between the municipal government and the individual employers whose apprentices are attending the school. If a technician who has served his apprenticeship attends the school, then the state pays for the entire course without any contribution. Apparently the programs in the technical school are separated between those which offer apprenticeship training and those which offer further training for technicians on the job. The technician is not an individual so designated because of any technologically or scientifically oriented work he may do, but merely because he is one who has already served his apprenticeship.

Training and Retraining To Promote Economic Development

The technical schools serve not only to train, but also to retrain individuals as industrial problems may arise in the area of decreasing economic viability of an industry. Thus, technical schools may be located where there have been problems of economic development. The technical schools, therefore, are seen as an effort to deal with local development and the needs of the local economy in a way which provides a supply of skilled manpower for new types of industries that may be coming into the area. Or in addition, they may be located in an area to help in the process of retraining workers with skills which are now needed by an industry or firm which is in competitive difficulty.

In order to deal with the increasingly important problem of training and retraining older workers, or adult workers, the Danes had to begin to think along new lines. This became especially true with the efforts at industrial reconstruction and growth after World War II. During the 1950's state schools for semiskilled workers started day courses of three weeks' duration in residential locations. Technological institutions were also developed to provide a system of courses dealing with specific industrial needs. It was the

Vocational Training Act of 1960, with organizational and economic assistance coming from the state for development of vocational training programs for unskilled workers, which permitted these workers to receive training that meshed with technological developments and conditions of the changing labor markets. The Vocational Training Act of 1960 (for unskilled workers) provided a framework within which it was primarily the duty of the employers and workers concerned to determine the content of training.

In 1969, under a new legislative program, many of the provisions to be found in the unskilled workers act of 1960 were applied for the benefit of workers who wish to change their skills and need to be retrained. These are workers primarily from depressed areas or from areas in the process of shrinking economically because of competition. Under the 1960 and 1969 legislation, there are about 20,000 workers enrolled in continuous education programs concerned with training and retraining. The majority of these people, however, are covered under the 1960 program which focuses upon the upgrading of skills.

The training program organized under the 1960 legislation is centered in each industry as a series of independent short-term courses which are interlinked in such a way as to provide a gradually advanced form of training. The content of the individual courses may be changed concurrently with the development and, in turn, with the training needs of a particular field. Thus, in addition to basic training for several trades and specialized types of training, there is a programming of subsequent training and retraining for other occupational fields. The training program is given during the day in courses ranging from one to six weeks with a three-week course being the general rule. Training consists mainly of practical work, under workplacelike conditions, and supposedly the curriculum content is confined to that necessary for carrying out practical work. The theoretical curriculum would also include such basic fields as communications, mathematics, and some basic sciences. On completion of each separate course, a certificate is issued clearly defining the content of the training. Curricula have been approved for well over 200 courses covering close to 80 occupational areas. The largest fields are the middle trades, building and construction, transportation, and mechanics.

The trainees under the Act of 1960 are normally over 18 years of age. However, under certain conditions those under 18 are also permitted to enroll for training under this Act. The vast majority of participants are unskilled workers, but certain courses are also being attended by skilled workers, supervisors, and self-employed persons. Enrollments in these courses in 1969 numbered well over 21,000. However, since many trainees attend several courses, the actual number of trainees involved is probably well below 14,000. Contrary to the situation in the folk high schools, over one-half of the total number of enrollees are over the age of 25, with almost 20 percent over

45 years of age; about 15 percent are women. The women are found primarily in training programs concerned with clothing, textiles, hotels, or restaurant trades.

Student Stipends or the "To Be or Not To Be" Question

One of the most important aspects of the Acts of 1960 and 1969 is the assumption that the trainees will have to be supplied with financial assistance capable of providing them the means of sustenance. In order that the financial situation of the trainee will not prevent him from utilizing the training facilities, both acts provide for an allowance to be paid to him for loss of earnings or employment opportunities while attending day courses, which in some cases may be conducted at residential schools. To be eligible for an allowance under the 1960 Act, the trainee must be recommended for training by the unemployment insurance fund, and his application for enrollment must be accepted by the person in charge of the training institution.

The amount of the allowance corresponds to the rate of the unemployment insurance benefit for which the trainee would qualify if he were unemployed and a member of a state-approved unemployment insurance fund in the period concerned. Thus, for a worker who gives up his job to attend a course under any of these programs, the allowance is increased by 50 percent in order that the training will not stand in the way of his supporting himself and his family if he has one. This increase of 50 percent is payable to a trainee who is employed at the commencement of the training or at the time when the school accepts his enrollment, provided he has been employed for a total of five weeks within the two months immediately preceding training. In no case, however, may the total allowance exceed 90 percent of the average daily earnings payable in the trade concerned, or 100 percent of the trainee's previous daily earnings. Here is what the specific numbers are: The daily rate of benefit payable by the unemployment insurance fund for unskilled and semiskilled workers is 65 kroner for men and 55 kroner for women. The weekly allowance for such men will thus amount to 390 kroner, or with the 50 percent increase, 585 kroner; the corresponding rate for such women will be 330 kroner or 495 kroner. By way of comparison, it may be noted that in April and June 1968 the average weekly wage for unskilled men amounted to about 508 kroner, and for unskilled women to about 405 kroner. The majority of the trainees have qualified for the award of the 50 percent increase. From 1967 to 1968, three-quarters of the males and almost one-half of the females received the 50 percent increase. On the other hand, because of the increases in the rates of benefit since the beginning of the 1960 Act, the vast majority of unskilled workers have not been capable of fully utilizing the 50 percent increase by reason of the stated maximum level of 90 percent of the average daily earnings in the trade or 100 percent of the trainee's previous daily earnings. The allowance is paid entirely by the state. Though its cal-

culation is based on the rates of unemployment insurance benefit, the allowance has nothing to do with that benefit and is not calculated as benefit days in determining the maximum number of days for which the benefit may be paid. For those trainees who are self-employed, however, these allowances are not payable since the conditions for being or becoming a member of the unemployment insurance fund do not include the condition of self-employment.

The Retraining Act of 1969

Because of the special needs for individuals who are already skilled but need retraining, a new act was passed in February 1969, empowering the Minister of Labor to support special retraining facilities which were needed to deal with the problem. Under this act, the Minister of Labor is empowered to set up or make grants toward retraining courses where employment possibilities are temporarily acute in particular local or occupational areas. In order to be eligible for retraining under this act, individuals must be unemployed, likely to become unemployed, or, as a result of technological and occupational developments, forced to give up their occupation, wholly or in part. This applies in particular to self-employed persons in agriculture or the retail trade who have to give up their trade or business owing to the trend of new economic developments. Retraining can also be provided for persons who reenter employment after several years of absence. This is of special significance for housewives seeking to come back into the labor force. The Retraining Act provides for financial assistance to persons attending such retraining courses, and the assistance is not conditional upon membership or future membership in an unemployment insurance fund. This was a critical departure from the Act of 1960, which was concerned with skill training. Wage earners attending day courses under the Act of 1969 are eligible for a retraining allowance determined under rules similar to those relating to the allowance payable to the trainees under the Vocational Training Act of 1960. However, where retraining takes place during productive employment in an industrial establishment, the grant shall be of such rate that, added to the wage, it corresponds to the negotiated pay subject to a daily maximum of 60 kroner for men and 55 kroner for women.

Administration of the Programs

The Acts of 1960 and 1969 are essentially overseen by the Training Board. The main functions of the Board consist of approving the establishment of branch committees and approving the organization of courses and curricula for each particular course prepared by the branch committee. Additionally, the Board is responsible for making recommendations to the Ministry of Labor on the expenses of conducting the courses; in that context it acts as a superior administrative body to the schools for semiskilled workers. In addi-

tion, it is the duty of the Board to plan the structure and functions of the training system and to act as a coordinating body among branch committees, the chief industrial organizations, and the respective institutions. Finally, the Board is supposed to discharge all common responsibility in the training fields; for example, providing for the training of instructors. The branch committees, which consist of an equal number of representatives of the workers' and employers' organizations in the particular trade, examine training needs and draw up the programs for the organization of courses within each occupational field, as well as the curricula for the individual courses. They also supervise the training and the issuing of certificates.

Training facilities for the workers are entrusted to both independent and state schools. The independent schools are local schools directed by a governing body and a school committee, on which the local workers' and employers' organizations, as well as institutions and local authorities associated with the work of the school, are represented. These independent schools receive funds for the erection of buildings by means of a rather involved loan program with mortgages initially accounting for up to 85 percent of the initial expenditure; the remaining capital must otherwise be provided for and normally comes from the local authorities. The state may grant loans and make payments toward the purchases of machinery and equipment. The state makes a grant for 85 percent of the running expenses of a school, with 10 percent normally paid by the Danish Employers' Confederation and the National Union of General and Semiskilled Workers and a few other organizations. The remaining 5 percent is otherwise provided—normally from local authorities. The state schools which are run for the workers are entirely funded by the state itself. Many of these schools are partially residential. There is a certain division of functions between the state schools and the independent schools, with the latter being primarily regional schools and the former chiefly national institutions, mainly organizing advanced courses and courses requiring large investments in teaching materials (for example, courses in construction and in the operation of heavy-duty engines and machines). The state schools most frequently provide training which is necessary to meet local economic needs.

Evening Schools

In addition to all of the above-mentioned programs which are concerned with the continuing education of adults, under the Evening School Act of 1930, revised in later years, a rather effective means of providing fundamental as well as some vocational education for adults was made available. The Act of 1930 as revised in later years really provides funding and state support to organizations which develop continuing education programs for workers, as well as others in the society, during evening hours. Admission to the schools is open to all, and there is no fee for attending the classes. The

preferred study method is the use of conversation groups or workshops, and the general aim of the evening school, like that of the folk high school, is to provide a general social and humanist education rather than vocational training. The evening high school is a variation of the folk high school approach. The evening school concentrates on basic and elementary education subjects, rather than on a more sophisticated treatment of the same particular areas. It is not a residential or full-time school.

Perhaps the most extensive use of the Evening School Act is made by the Workers' Educational Association (AOF). AOF was founded by the four major Danish labor organizations, the Labor Party, the Danish Federation of Trade Unions, the Urban Co-operative Movement, and the Labor Youth Movement, all of which are represented on the governing board of AOF. AOF operates the Roskilde Folk High School which was mentioned earlier, as well as the Esbjerg Folk High School. AOF and the Workers' Folk High Schools have done pioneering work in the field of adult education, and are still doing so; especially important has been the whole series of programs run by AOF in the evening schools. With funding support under the Evening School Act of 1930, as amended by later acts, AOF has run thousands of evening school classes each year all over Denmark, with the major concentration in the large cities and the provincial towns. These evening classes were in addition to the special vocational schools for unskilled workers, schools for shop stewards, schools for members of joint production committees, and schools for the unemployed.

Concluding Thoughts

In conclusion, one might ask: What exists in the Danish adult continuing education program which is of interest in the United States and might have some transference value? Of primary interest is the long history in Denmark of an effort to provide adults with a sense of involvement in the political and social life of the community. Since the pioneering work of N. S. F. Grundtvig and Christen Kold in the mid-1800's, the main emphasis of adult education in Denmark has been "national and civic life that we all can and must share." It was Grundtvig's fear that the representative form of government, which was advancing in Denmark at that time, would not be shared by the citizens or that each person would not develop a sense of contribution in the affairs of the new democracy.

On the basis of references already made to the work of Sheppard and Herrick in the Upjohn Institute study concerning blue-collar workers, it is interesting to note that such workers in the United States apparently exhibit characteristics typical of a sense of "growing apartness" or anomie regarding the complicated problems of our society and the relationships between individuals in our society. Nowhere has this been more apparent than in the

sense of frustration indicated by the so-called older generation of blue-collar workers regarding their difficulty in understanding the needs of the younger generation as well as their own role as they grow older in a world which is increasingly more complicated both on the job and off the job. The evidence presented by Sheppard and Herrick with special regard to voting patterns seems to indicate that the blue-collar workers whom they studied do not always vote so much with an interest in political philosophies as with an interest in what the individual candidate, regardless of basic political philosophy, holds out with respect to dealing with the real or imagined problems and frustrations of the blue-collar voter.

It would seem that the theories advanced by Grundtvig, which were actually made a part of educational reality by Kold, have a good deal of application at the present time to our own felt needs for a sense of involvement and enlightenment in the affairs of our nation, if not in the affairs of the world.

In Denmark there are 69 folk high schools which are private, self-governing institutions that receive substantial state grants toward teachers' salaries, buildings, educational materials, and most other essential costs; the students also receive subsidies from the state. These schools have remained residential mixed schools for men and women. Their courses vary from three to 10 months. Through time, there have also been developed short courses of one or more weeks' duration, sponsored either by the schools themselves or by one of the many adult educational organizations, including management and labor groups. With approximately 9,000 students enrolled in these folk high schools, it is interesting to note that about 5 percent of them are from other countries, mostly Scandinavian. Approximately 2,500 to 3,000 students take residential educational programs during the summer. The schools are completely free to draw up their own syllabi, with the sole condition for obtaining state recognition being that the education must be of a general all-around character. There are no entrance or terminal examinations. To reiterate what has been said before, the most frequent subjects offered are Danish literature, social affairs, foreign affairs, foreign languages, psychology, and music appreciation. Though originally the pedagogical form was dominated by lectures, books, and self-study, the lecture form and self-study form have now taken a subordinate place. Today group work, seminars, and the use of educational technology involving active student participation have become the new form of education. The folk high schools are not a part of the general educational system of Denmark; therefore, graduates are not admitted directly to posts of any kind. On the whole, the folk high schools are generally educative, and their personal development courses are accepted as good qualification for employment and further education. To reiterate, the folk high schools are not vocational schools.

With an adequately high subsidy level for adults, especially those with

families and other types of financial commitments, a counterpart, in the United States, of the Danish folk high school system could provide an important means for the intelligent and perceptive involvement of adults in the affairs of our country and a greater degree of appreciation for the involvement of the United States in world affairs. It would be, by no stretch of the imagination, a tremendously valuable source for contributing to an understanding of racial conflict and ethnic group frictions if individuals from minority groups in early adulthood could spend three to 10 months in a residential situation focusing on such areas as American history, history of minorities, psychology, sociology, and urban problems. Thus, the individuals who are a part of the conflict situations could also become a part of a joint learning effort.

As we see the developments taking place in France and Germany, additional pieces may be fitted into a jigsaw puzzle which can produce a panorama of adult education which makes sense for the United States.

III. The French Venture

On July 9, 1970, after 14 months of difficult and prolonged negotiation, the CNPF (Le Counseil National du Patronat Français) and the union organizations in France, together with representatives of the concerned governmental agencies in education and labor, reached an accord on continued training and vocational improvement for French employees.[1] By coincidence, this event took place at the same time that the international Conference on Continuing Training and Education During Working Life, sponsored by OECD, was being held in Copenhagen. The French delegation announced this accord and indicated that the implications for French education generally might well be far reaching. For anyone who has looked at the system of education in France, it is not difficult to agree with the statement of various members of the French delegation that to take a step which would guarantee the right of French workers to return to the educational system for general education as well as technical training would represent a radical departure from the educational system in France. After looking at the complicated, involuted, and highly credentialized system of education in France, one must conclude that it is indeed one of the most complex as well as one of the most inflexible systems of education in the world. However, during the last several years there have been many steps taken to rectify this situation. Leaders in French education, such as Professor Bertrand Schwartz, have begun to indicate the future direction for French education as well as vocational training.

The New Law a "National Obligation" for Investment in Human Resources

Between July 1970 and July 1971 the accord was the basis for further work undertaken by legislators in France to shape this agreement into a new law affecting continuing education.[2] The final draft legislation concerning permanent education and training was analyzed in the newspaper *Le Monde,* June 4, 1971. The article stated that this new legislation would undoubtedly be "the charter for a new national obligation." This new legislation is by no means a revolutionary step because, for one thing, a large part of its 55 articles repeats (but improves and adds to them) the provisions of the Orientation and Program Act of December 1966 on occupational training and the provisions of the Act of December 31, 1968, concerning compensation for trainees, as well as the principal clauses of the management trade union agreement of July 9, 1970. Nonetheless, according to the article in *Le Monde,*

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[1]In France, the term "employee" refers almost solely to wage earner as opposed to salaried employee.

[2]Since this chapter was written, the draft legislation was enacted into law, and an English translation was made available in December 1971. This translation comprises Appendix A.

the draft legislation is of capital importance because it offers for the first time a coherent and complete framework for permanent education and makes available the additional financial means with a view to promoting the rapid development of a policy of continued training for wage earners as well as occupational training for school graduates.

This major effort at educational reform had been the subject of numerous discussions and working sessions during the six months prior to July 1971 among the various representatives of the ministries concerned, the occupational organizations, the workers' and teachers' trade unions, and the members of management. The concerted effort so frequently advocated by the French government in the field of education, at least in this particular undertaking, was not an empty phrase. The objectives of this educational reform are twofold: first, "to struggle against inequality of opportunities" and, second, "to provide an effective answer to the problems posed by the adaptation of workers to the changes which inevitably accompany economic and social development." To begin with, the draft legislation stated that permanent occupational training constitutes a national obligation. It must be dispensed to adults and young people already engaged in active life or entering into an active employment life with a view to furthering their entry into the different levels of the society and of occupational skills. The state, the local communities, the public agencies, and the public and private institutions of learning, as well as the various occupational associations and trade unions, along with management must combine in their efforts to ensure the availability of this permanent continuing education. The draft legislation, which builds on the Act of 1966, in essence provides as a *right* to the wage earner what had previously been an *option subject to the possible veto* of the employer, but it also provides the necessary financial inducements which have to attend a return to education by an adult. The Act of 1966 had instituted a system of agreements between the state and public or private establishments (schools, associations, companies), organizing training or refresher courses for young people and adults. Whenever the importance and the value of the training being given became recognized, the state undertook full or partial responsibility for the training facility's operating expenses and even for the cost of its construction or equipment. This approach under the Act of 1966 has not been eliminated, but with the new legislation has been modified and expanded. What was essentially a means of state financial aid to public and private enterprises will now become, under the new law, an element in the organization and the regulation of the "training market."

A Basic National Capital Investment Contract for Training and Education

The new agreement is the basic contract which guarantees the concrete adaptation of the available training resources to the real needs of the workers

and the economy. Now, concerns or groups with interests bearing upon the need for training, adapting, or improving the existing skills of a given category of their staff can address themselves to a public or private training establishment and enter into an agreement with it. Conversely, establishments which develop adult training programs can propose their programs to occupational organizations, unions, or business firms and sign an agreement for training with them. In either case, the state may participate as a third partner and supply additional financial aid for the realization of the agreed program; the agreement, then, would be multilateral. Finally, if partners are lacking, the state may take the initiative for undertaking directly a training activity which it deems necessary for a particular region or a particular industry. It then enters into an agreement with a public educational institution or an adult occupational training center, subsidized by the Labor Ministry, and takes full responsibility for the cost of the operation which it has requested. All agreements must specify, among other things, the nature of the training, purpose, duration, and number of trainees anticipated; the teaching and technical means to be employed; the manner of verifying and evaluating the program as well as the skills; and the contemplated distribution of the financial responsibility (involving operating expenses, cost of equipment, and remuneration of trainees). This system is an extremely flexible one and should promote close contact between supply and demand in the manpower area. It also, under the terms of the new legislation, encourages universities as well as other public institutions of learning to take initiative in establishing programs in the area of permanent training.

Paying for It

While the accord of July 9, 1970, opened up the whole concept of broad training, perfecting the possibility for workers to return to an educational program during their working hours, it failed to provide the necessary means of financing this effort except in a few cases. The government, however, which was already devoting substantial sums to occupational training (1.2 billion francs in 1971) considered that the growth of this new effort into permanent education and training must be accompanied by financial participation of employers. The draft legislation therefore institutes a tax on wages for all employers of at least 10 wage earners. This tax, somewhat like the one in effect for apprenticeship training, is used primarily as a form of inducement. It is less a means of bringing money into the treasury than of stimulating employers to provide training for the benefit of their wage earners. The tax rate is set at a relatively low level for 1972 but will gradually increase, keeping pace with the growth of training needs, to reach its final level in 1976. As it is designed, the tax would entail supplementary burdens only for establishments which are not yet making any training effort on behalf of their wage earners. Proof of an adequate training effort would then permit forgiveness of the tax.

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Business enterprises have a choice among several formulas for meeting their financial obligations: (1) They may join a regional plan or the plan of a trade branch and create with the most representative workers' union organizations an agency with equal representation of both for the purpose of promoting the development of permanent occupational training, in which case the employers pay to this agency a sum representing at least 0.9 of 1 percent of wages in 1972 and 1.5 percent in 1976. (2) Enterprises may allocate to the financing of training activities for their wage earners, within the firm or in centers connected with the social security program, at least 1 percent of wages in 1972 and 2 percent in 1976. These sums would apply only to operating expenses for the courses and remuneration of trainees. Expenditures for the construction or for the equipment of centers would be excluded. Employers who, during any single year, allocate sums greater than that required to train workers may carry over the surplus into the three following years. Thus, if they exceed 2 percent of total wages for their employees in 1976, they may carry over the surplus into the following years to defray various training expenses. (3) They may contribute to the financing of the training insurance fund an amount equivalent to at least 1 percent of wages in 1972 and 2 percent in 1976. The training insurance fund, a new feature of the draft legislation, is patterned after unemployment insurance funds, funded by contributions paid by the employers and the wage earners according to a schedule set by agreement between the representatives of both parties at the company level or by a representation of a group of companies. (4) The employers may pay 1 percent of the amount of wages in 1972 and 2 percent in 1976 directly to the governmental treasury. The difference between the rates set for the first system and those for the other three exists as an incentive for firms to group together and for trade unions to associate directly with the permanent training policy. But employers, like the workers' organizations, although for different reasons, seem unreceptive to this form of joint and equal management of funds. The government may finally, at the request of the parliamentary committees, give up these formulas.

Who Is Entitled?

Under the draft legislation, all wage earners having two years of seniority in the enterprise, with the exception of agents of the state or of local communities, for whom special provisions will be specified by decree, are entitled to request time off from their employer in order to attend a training course. This time off, which corresponds to the duration of the course, cannot exceed one year or 1,200 hours, if it is part time. Only occupational promotion courses may be for a greater duration. This time off is deemed similar to a working period even though it does not entail maintenance of the wage. A decree, which is to be issued in the near future, is to specify the manner of applying this right and in particular the maximum percentage of the

workers of one and the same firm who are eligible to benefit from this time off simultaneously. Thus far, it would seem that the employers and the trade unions have agreed upon 2 percent of the personnel of a particular firm being able to absent themselves under this program. With regard to supervisory and similar personnel, the upper limit would appear to have been agreed upon at 3 percent.

The draft legislation has also taken a step forward with regard to young people. Provision has been made for those who are between 18 and 20 years of age, who do not have an occupational diploma or an apprenticeship contract, to complete basic training while they are actually on the job so as to promote *their* adaptation to occupational life in the labor force. During their first two years with a company or in whatever job they may be, they will be entitled to take time off for training up to 100 hours a year, cumulative over two years. A young adult applying for this right cannot be refused by the employer.

With regard to training expenses and remuneration for trainees, the draft legislation is extremely complex and, in many cases, still unclear. Undoubtedly, by the time of final approval, these areas of complexity will have been simplified somewhat. The authors of the draft specify that the benefit of time off for training shall not automatically entail the assumption by the employer or by the state of the training expenses or of the amount of the compensation. The draft does indicate, however, the different cases in which this compensation will occur. The system is complex because distinctions exist among the types of courses, which sometimes are approved on a joint labor-management basis, sometimes by the state alone, and sometimes by all three partners.

The Eternal Key Question: How Does a Trainee Get Paid While Getting Trained and Educated?

The form and the amount of the compensation vary according to the nature of the training, depending on whether it is modernization of existing knowledge and skills or promotion or conversion into a different skill, and according to the trainee's position (whether employed or unemployed, a young person leaving military service, or a mother of a household). This compensation may be provided by the employer when there is partial or total continuance of the wage, in which case the state may reimburse part of the expenses to the head of the enterprise; by a labor-management organization; or directly by the state.

Taking into account the system of compensation envisaged in the draft legislation, which essentially follows that defined by the Act of December 31, 1968, as well as that by the accord of July 9, 1970, here are a few examples of the types of courses for which workers may apply for remunera-

tion on the condition, of course, that these courses are by agreement with or have the approval of the state:

1. *Conversion or preventive unemployment courses.* These are intended for workers who have been laid off or are threatened with being laid off, and who wish to change their occupation; farmers, businessmen, or artisans who wish to engage in new activities; young persons who have completed their military service less than one year previously; and mothers of households who wish to work. Remunerations are: (a) for wage earners in enterprises belonging to the CNPF who are victims of collective layoffs, full continuation of the former wages during the course up to one year; (b) for others, proportionate to the former income and in any case at least 90 percent of the minimum wage; i.e., 664 francs, and at most five times the minimum wage, 3,677 francs.

2. *Adaptation courses.* The purpose of these courses would be to facilitate access particularly of the young adults to a first job or to a new job. These courses would be given after trainees are hired by an enterprise. The trainees are, therefore, normally paid by their employer, with the state reimbursing the employer for a part of the wages and the social security allotment to the maximum of 55 percent of the wages but averaging between 30 and 35 percent.

3. *Occupational promotion courses.* These would be intended for workers who wish to acquire a higher rating or a higher skill level in the particular skill in which they have been operating. These courses are the only ones which can exceed one year, or 1,200 hours, in length if they appear in a special list drawn up by the state. Remuneration under the occupational promotion courses would be set each year according to the movement of the ceiling wage subject to social security contributions. There would exist several lump-sum rates according to the level of training pursued. Presently, it is envisioned that these lump sums might vary between 950 and 1,350 francs a month.

4. *Refresher or advanced training courses.* These courses are intended for workers who wish to keep up or perfect their skill qualifications. Remuneration is extended for wage earners in firms belonging to the CNPF, who follow a course approved by the Joint Trade Union Management Employment Committee. There would be a continuation of the wages for the first four weeks or the first 160 hours of training. For all others, compensation would be based on the minimum wage (737.5 francs). If the courses appear in a special list drawn up by the state, the minimum wage would be a monthly amount.

5. *Preparatory or youth training courses.* These courses are intended for young people between 16 and 18 years of age without a working contract.

The remuneration for these young people would be 240 francs a month for preparatory training or 270 francs for training in a specified skill.

How Did All This Happen?

In effect, this draft legislation offers for the first time in France a coherent and articulated approach seeking to enable all workers, whether earning wages or not, to improve their skills and qualifications or to change occupations. It supplies, from the viewpoint of education, a system for the adaptation of workers to change in accordance with the overall plan of the government for economic and social development. One might well ask: What led to this effort to provide for a new and subsidized permanent education and training program for French workers? In my discussions with members of state ministries concerned with education and employment, management in various large corporations in France, and individuals in the trade union movement, one underlying set of reasons came to the fore. Over the past decade, economic development in France has moved ahead extremely rapidly. Employment levels have been at a peak, and the problem of providing sufficient numbers of individuals with the skills called for by economic development has been a serious one. With the expansion of the French economy, the average worker has changed his job several times during his work life, and not only his job but his skill as well. When I talked with members of the Association Pour la Formation Professionnelle des Adultes, they made it quite clear that industry has become more and more concerned with shortages of individuals with the required higher technological skills. In fact, industry people have indicated sufficient concern over this problem that a few of their leaders have taken on the burden of developing the outline for a training program which will reach through an individual's entire life. Leaders in the trade union movement likewise have become concerned with the fact that French workers wish to become a part of the skilled technology and have taken the very strong position over the last decade that a new system must be developed by means of which workers will receive constant upgrading and training. When I talked with a number of French workmen, they made it quite clear that they no longer desire to remain at the lower rungs of the skill ladder. They feel that given the shortages of workers for skilled jobs, it is the responsibility of the employers and the government, along with representatives of the trade union movement, to devise a new educational program which will equip them for better paying and more interesting types of jobs now available with better working conditions.

As the economy grew rapidly and it became necessary to bring in workers from other countries, such as Portugal and Spain, the French workers made it quite clear through their representatives in the trade union movement that the proposed continuing training program must be developed as rapidly as possible. Of course, it should be remembered that the draft legislation builds

importantly on previous legislation concerning worker retraining and education. Under previous legislation, if a worker wanted to obtain a new skill, he would have gone to the national agency of employment where counselors would have looked at his background and his skills and indicated to him areas which made sense in terms of a retraining program for a new skill. He would then have been sent to an occupational center in his region to register for the type of training which would have given him the skill for the job he had decided to train for. At the occupational center he would have been given additional tests to determine his skills and abilities, as well as a medical examination. He would then have been sent to school for the specific occupational and education program necessary for the job he wished to train for. It might, for instance, well have been a program lasting six months with 40 hours of training a week during which period he would have received payments of about four francs per hour plus all of the other subsidies. The training would have included not only occupational education but also general education, such as literature, computation skills, mathematics, reading, and so on.

The major departure of the new draft legislation from the old law of 1968 is that French workers will have the *right,* not merely the *possibility,* of training and education and retraining, within the upper limit of approximately 2 percent of the labor force. Finally, and most importantly, I believe, the draft legislation provides the income subsidy necessary for the worker to undertake a training program so that in effect his wage rate is to a great degree continued. Without this income subsidy, the idea of continuing or permanent education for adults throughout life is an incomplete one. The major gain of this new French law is that it finally recognizes the fact that an education and training program without the economic subsidy necessary for an adult who has family responsibilities is not effective.

Some Areas of Dispute

In the development of this draft legislation, as well as in the development of the July 9, 1970 accord between industry and labor, there have been, of course, a number of areas of dispute between industry and labor as well as between big industry and small industry. In a discussion with Mr. P. Rousselle, of the Renault Automotive Manufacturing Company, it was apparent that big industry was the major influence in the development of the management side of the accord. The smaller firms were not ready for it, and they were not as interested in the agreement primarily because it was the larger firms that caused the major thrust forward in the French economy, with the concomitant need for highly skilled workers. The small- and medium-sized firms have continued to a greater degree than larger firms, and certainly to a greater degree than is healthy for them, production processes which do not have a large proportion of highly skilled and technologically oriented workers or

processes. In addition, businessmen generally have favored an occupational-oriented program rather than a program oriented to general education. As might be expected, trade union representatives have taken the position that more, rather than less, general education should be a part of the permanent educational effort in France.

In discussions with educators and members of the Ministries of Education and Labor, as well as with persons in private firms, I learned that an effort will be made to provide some general education where it is necessary for the attainment of a higher skill or for retraining. The overall emphasis of the permanent education program in France is one of continually equipping and reequipping individuals for the labor force and of providing the basis for each member of the labor force to lead a more productive economic life. Hence, it is probable that the general education aspects of this new effort will be rather minimal.

Innovation at Nancy—CUCES

In the Nancy area there is, however, an exciting and truly innovative effort to provide a continuing education program for adults with an emphasis on general education and involvement in life experiences, which brings to one's mind the basic philosophy of the Danish folk high schools. This particular experiment is concerned not only with a new type of permanent education but also with the involvement of the community. In the educational process, the community is actually involved in major decisions pertaining to curriculum, participants, and characteristics of the faculty. It is reminiscent of the efforts in the United States under the Poverty Program, and the preceding program concerned with juvenile delinquency, to have the local target group involved in the design of the programs which are to provide the means of moving ahead into new economic and social strata.

Beginning in 1964, and during 1965, at the Lorraine Iron Ore Basin Project in Nancy, Professor Bertrand Schwartz of the French Ministry of Education used the Centre Universitaire de Cooperation Economique et Sociale (CUCES) to work out a scheme for helping iron ore miners to acquire training. What is important in that particular project in the light of this study is not the vocational skill characteristics of the program but rather the general philosophy of the program and the unprecedented involvement of a community (especially in a country such as France) in the design of a retraining and education program for unemployed workers. The first phase consisted mainly in surveying the local scene after which it was possible to draw up a suitable plan of action and decide which bodies could take over responsibility for future action. Many of the workers were not unemployed but were in an industry which was in grave economic difficulty and where the projected need would be for transference of wage earners into other occupational areas.

The plan was to develop short courses spread over four months and arranged so that there were two to two and one-half hour classes a week on subjects requested. The subjects were mainly electricity, mechanics, mathematics, drawing, and self-expression. The object at first was not so much to impart new knowledge as to enable people to utilize and update their existing knowledge and apply it in the course of their daily lives. The classes were to be held during the trainees' free time. At the outset, instructors were chosen from among the mine foremen to ensure that both instructors and trainees would be talking on the same level. Later, the subject matter was changed and many professional teachers were brought in.

In 1966, the experiment was carried out in the first area which included 12 mines. The first publicity campaign brought in 500 applications, whereupon 15 groups were formed and started training in April. By autumn there were over 400 miners, divided into 32 groups, being given training. As of the beginning of 1970, there were 124 training groups with a total of about 1,400 students. Training was conducted for such skill areas as practical mechanics, mechanical drawing, sheet metal working, welding, electrical technology, and then such basic areas as mathematics. There were six different mathematics courses (including new math); four different courses in physics; and courses in English, psychosociology, and French self-expression.

The basic philosophy of CUCES is that the professional educators will be available to help provide guidance and consultative services to a local coordinating group. The local coordinating group or committee in this experiment was composed of people elected at large from the local community and of representatives from mining companies, trade unions, and local government. As Professor Schwartz explained, the professional educators told this collective group that they would help but that the group itself would decide who is to be trained or retrained, the areas of training, and what hours training would take place.

Immediately one of the major problems was that of determining when the courses would be given. If, for example, the courses were to be given after work time (that is, at night), the employers would agree, but the trade unions would disagree. Conversely, if the courses were to be organized during the daytime with released time from work, the trade unions would be quite happy to develop such courses, but the employers would not agree. Finally, it was concluded that the courses would vary between day and night on week days as well as weekends. The programs would be given according to the number of trainees available, the time of shift work, and the availability of instructional staff. The division between fundamental education and occupational education was decided in curriculum design committees designated by the overall committee itself.

What did the individual students wish to get out of this form of educa-

tion which, while it was free, was not subsidized in terms of any part of their wages being paid as a stipend? At first, the students said that they wanted to understand what they did, either in their work situation or in their life situation. Professor Schwartz said that the students put it this way:

— We cannot continue to accept not understanding anything about what we do.

— I run a machine, and I don't understand what is inside.

— I am working as a blue-collar worker, and I don't understand the newspapers.

— I am a parent, and I don't understand what my children do, and I fear to discuss with the professor what he doesn't like.

— I am a workman, and I cannot read and understand the newspapers.

These expressions manifest a syndrome—the individual's sense of being outside of situations rather than having the intellectual ability or educational background to get into the midst of a situation and exert some influence on the direction in which he is going. This feeling of alienation is so close to the "blue-collar blues" syndrome described by Sheppard and Herrick that one cannot help but be impressed by the universality of this sense of frustration over not being a part of a situation in terms of work life as well as social life.[3]

During my interview with Professor Schwartz, he indicated that the CUCES program now takes in an area which is considerably beyond that of Nancy itself and incorporates approximately 7,000 people in the general geographical area. Many of the teachers are not of the traditional types. They are individuals from the Nancy area, most of whom have not been involved professionally in education; but they do have the ability to empathize and communicate with the students on a number of different levels. The CUCES program provides its own teacher training. It has a philosophy of small learning groups that not only permit a good teacher-pupil ratio, but also engender a great deal of group loyalty. Much of the instruction is on an individualized basis, thus permitting individuals to move ahead at their own pace. Some persons in the group may then be qualified to leave one group and move into a more advanced one. However, according to Professor Schwartz, what happens is that these persons frequently refuse to disassociate themselves from their original group. In view of this, the social class heterogeneity of the groups is startling. As Professor Schwartz indicated, in one group you might well have a middle class engineer's wife and a charwoman learning as co-equals.

Enrollment in the training program is an extremely open and flexible

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[3]Harold L. Sheppard and Neal Q. Herrick, *Where Have All the Robots Gone?* to be published by The Free Press in 1972.

situation and was consciously designed to be so. For example, people wishing to take courses are not asked to choose a field of study at the outset but only "to enroll for training." The enrollment campaign (or as we know it in the United States, the "outreach technique") is essentially conducted by trainees, instructors, and members of trade union organizations who spread information about the training scheme and distribute enrollment forms.

The local coordinating committee accepts the principle of providing individual interviews with people who enroll. The object is to determine individual aspirations, motives for wanting training, fields of interest, and as far as possible educational level of the individual. Interviews are conducted by CUCES instructors and staff. CUCES is responsible for sifting and studying the results of the interviews and forming training groups based on these findings. Because of the wide disparity in levels of knowledge possessed by those interested in entering into training, and because of the variations in the time that they can devote to training, it is frequently necessary to vary the periods of study and the frequency of attendance for a single course.

A major principle in the training is that each trainee must become aware of his own capacity to learn. Once he is aware of his capacity to learn, he is then, as a rule, motivated to continue and to press on to a more demanding curriculum. Hence, it is necessary to capitalize on the knowledge that the trainee has acquired. Thus, the syllabus that a candidate has to cover for an examination is broken down into a number of training units. The important factor is his ability to deal with each unit and to be graded on each unit. Each student is therefore able to build up the total needed credits at his own pace in a way suited to his ability and to his available free time for study. For example, if the student were to work toward the attainment of a job proficiency certificate, there would be three major areas of training: first, general training; second, technological training; and third, occupational training. Common cores would be developed. Specifically, in basic general training, the core would consist of mathematics and French. In the technological and occupational areas, there would be similar common cores of training units which would then permit a switch from one set of related occupations to another later on. Common courses would be developed within the same set of related occupations. This system enables apprentices in one trade promptly to acquire skills in other trades. It is designed to take account of the special circumstances and backgrounds of adults. Tailormade courses are planned in terms of objectives, rather than in terms of syllabi and duration. This means that when an adult has completed a course unit he should be proficient in the subject. But the duration of a course varies according to the individual and his ability to master information.

When an adult is taking a course, his progress is being checked all the time, such an assessment being an integral part of training. It measures the

ground covered. The final check is to show whether the adult is proficient in the course he has just taken. The customary final exam, too inhibiting for most adults, is thus eliminated and replaced by a series of checkpoints. If an adult thinks, contrary to the opinion of his instructor, that he has reached the required standards for proficiency testing, he may request an examination. If he passes the examination, he receives the unit credits for proficiency. Also, if an adult thinks he is up to the proficiency standards of a course that he has not taken, he has the right to have his knowledge tested. If he passes the test, he is given the credit. Rather dramatically in terms of what we are used to in this country, as well as what they are used to in France, an adult is thereby given credit for past experience based solely on an examination.

Continuing Education for Managerial Responsibilities

One of the more exciting continuing education programs which has grown quite rapidly in France is that of the Centre Interentreprises de Formation et d'Études Supérieures et Industrielles. The Centre has been concerned with the training of skilled individuals in manufacturing establishments who could, if given the opportunity, training, and education, qualify for middle-management and possibly even top-management positions in industry. Currently the Centre has five training programs; they are located at Lyon, Arras, Mantes-Chantenay, Paris, and Toulouse.

The Centre was created in 1958 by Dr. Raymond Vatier.[4] It began as a cooperative effort between a small group of major industrial companies (about five) and the French Ministry of Education. Initially the Centre was supported by these companies. They felt that it would be difficult to conduct broad-range training and education within their own establishments, and that there would be economies of scale in having specially designed training centers. At the present time approximately 50 percent of the funds for all the training centers comes from the French government.

In discussions with Mr. Bernard Lentaigne, who is one of the directors of the Centre program, it was obvious that the major effort has been to build in a sufficient amount of general, broad-gauged education so that the graduates of the program would be capable of assuming responsible positions in middle management. The courses themselves vary in length; some continue for almost two years. The program is divided into alternate periods of training in the Centre and periods of practical work in industry, which may include traveling in the field—in some cases abroad—in order to gain the broader insights necessary for management functions. Linguistic training, methods of study and analysis, and self-expression are important parts of a

[4]Vatier is a name famous in France in the field of adult education. He was recently appointed by the Ministry of Education to be the First Assistant for Adult Education and Professional Training in France.

curriculum which includes the usual types of instruction in industrial management, team organization, personnel management, production and promotion control, and the training required in special areas such as mechanics, electricity, industrial chemistry, physics, metallurgy, and chemical production.

The amount of time devoted to study and practical work is 22 months. The 22 months are divided into two periods. An initial seven-month period of general training is devoted essentially to a sound foundation of basic theoretical knowledge and understanding of present-day industrial and technical processes. The teaching in this period aims at bringing all the students to a certain level of knowledge and at giving them the necessary basics for the training that follows. This applies especially to two parts of the curriculum: "general technical training" and "character development." Instruction is given by a mixed staff of university lecturers and teachers from industry working together. During this period there are special arrangements made so that the students can actually spend some time in specific firms working on industrial problems so that what they have already learned can be applied. During the second period of approximately 15 months there is a concentration on industrial application in such areas as business organization, management, general manufacturing technology, work planning, personnel management, and economic and industrial problems. The instruction is given by men from the industry itself who have been involved in dealing with such problems. The study groups are small so that there can be a good deal of individual attention. During the final months, there is an intensive effort to have students understand the relationship between themselves and the industry to which they are returning as well as the general problems of the industry not only in the French setting but also in the world setting. In the last months at the Centre there is an evaluation of the individual and his particular personal goals in terms of his career development.

The qualifications for admission to this program are as follows: (1) at least five years in industry, excluding the years as an apprentice; (2) competence in a specific technical area or trade; and (3) the declared intention to take part in continuing production work in the specific industry. A review of candidates' applications, including proficiency tests and psychotechnical examinations in the interviews, is made by a selection committee which includes the director of the Centre; representatives from the Ministry of Education, employers' organizations, and trade unions; instructors at the Centre; and former students. The following factors are considered by the selection committee: (a) experience and personal attributes such as dynamism, perseverance, and adaptability; (b) general level of education; (c) powers of assimilation; and (d) health. Grants to cover loss of wages are made by the Ministry of Education to candidates nominated by the selection committee.

This program is still fairly limited with about 200 students enrolled in

the 22-month curriculum, but it has to be understood that the effort at education is a really intensive one with groups of only 24 in each class. The 24 are broken down into three groups of eight to study and live together. A constant effort is made to appraise the personal growth of each student as well as his increasing competence in the technical area. Since the students in this program come from industry and are accustomed to the usual daily working hours, the school itself is one which is in session for a full eight hours, Monday through Friday. As a result, the educational effort is an intensive one demanding a great deal both mentally and physically from the participants. Hence, in this respect it is somewhat like the Scandinavian programs. Physical education is also built in, to relax the trainees during the day. By the end of the semester, which occurs in June, the trainees are usually rather fatigued mentally; in the month of July they are therefore sent on a study tour. Since most of the trainees come from manufacturing or secondary industries and are unfamiliar with such basic industries as mining and agriculture, the majority of them spend the month of July visiting and getting to know problems in the minerals and agricultural industries. Others who may be familiar with such types of endeavors spend their time during this month studying other types of enterprises such as banking, finance, and commercial endeavors. During this period there are also special lectures and seminars in the cultural areas of music and fine arts. When I inquired of Mr. Lentaigne whether this ideal of a broader form of education would be accepted by industry for the average worker, he replied: "During the first year when we started, we were perhaps a little silent about these sorts of things, but now the industries have seen the results in the last several years that their men are much more efficient. When they came here they were rather narrow, but when they go back to their firms after two years the managers say they cannot recognize them. They have much more independence in their thinking; they can comprehend much more easily and communicate more effectively. After this experience, we have now extended this type of training." Mr. Lentaigne continued:

> During the two-year program, when we have an eleven-month educational year, the time is divided into three-month periods which are "sandwiched." This means they are here in the classroom for three months then for a month they are mainly outside. At another period they have one month when they are in industry. We send them to different industries to be on the site of one which is completely different from the one with which they are familiar. Someone coming from Renault Industries, for example, will be sent to an aeronautics or chemistry industry.

Initially in 1958, the companies sending the trainees paid their entire wages. Now, however, the agreement with the French government provides to trainees stipends or subsidies from the government in addition to some

income from the company. At the present time all trainees receive 1,350 francs per month, and some trainees receive rental payments. Many of the trainees live with their families, if they are in the area. Some trainees are accepted who are not affiliated with a particular company; such trainees receive only subsidies from the government during the two-year period. Up until now, the government has not limited the number of trainees, but rather, based on the plans of the Centre itself, has awarded an annual contract to pay for training of a specific number either on a full-remuneration basis or on a shared-payment basis with the company itself. The total amount of 1,350 francs is hardly sufficient for most of the trainees. Those who are married often have their wives working during this period. In addition, some of them borrow funds which they are generally able to pay back when they return to their home industry or company since they earn a sizable increment.

All of the students are taught English or German. Apparently, English has been the language taught in most cases. Two months before the end of the training period all of the students are sent for two weeks to either England or Germany to observe how their industry functions in these countries as well as to get to know something about the kind of worker and management problems that are encountered in these countries. Mr. Lentaigne observed that on their return from England or Germany they have sharp changes in their perception not only of the country they visited but of the relationships between England or Germany and their own. Many of the students choose to spend their last six weeks of training in either England or Germany. Recently, three of them chose to go to the United States; of course this is extremely expensive, and it is very difficult to find a company willing to send them to this country for training. All of the students return to their respective companies because of a moral obligation to work about five years in the company after having received two years of training. The average age of the students is approximately 31, with a range from 25 to 45.

In addition to the two-year program, there is a shorter program. This program has been established for those individuals who are technicians in industry and were undereducated while young, but who have displayed in the factories ample skill in their own specialty to be called "cadre." "Cadre" means, as well as I could obtain a definition for it, "senior skilled workers." The educational program is approximately four months in length spread over a 12-month period. The first week is an orientation to aims and goals of the program. After that, they return to their firms for one month and then go back to the Centre for a three-month course which seeks to broaden them in terms of their appreciation of management problems. Following that three-month training program, at some point during the next year they will return again to the Centre for a two-week followup series of lectures and seminars. This program includes not only management subjects but also those concerned

with general problems of communication, current problems in France and the world, and general personnel problems in the plant. At the present time there are approximately 250 people in these short programs.

Concluding Thoughts

When one views the current education and training programs in France, it appears that economic forces have caused a major rethinking by the French government, management, and trade unions to ensure a form of permanent education throughout the lives of individuals that will provide a labor force of skilled workers who possess a sense of personal satisfaction. Since the new permanent education law has just been enacted, it is too early to determine what the implications will be for manpower, education, and the general sense of frustration which has been observed among French workers. Along with the effort to develop a permanent, life-cycle type of educational experience which is by and large more training than education, there is the tremendous importance of the work which Professor Schwartz has been doing with CUCES at Nancy in developing a community-oriented, self-designed type of educational program which is as much concerned with general education and personal development inputs as it is with occupational inputs. Personal counseling and courses in psychology and communications are fitted into the effort so that the frustrated worker may understand the obsolescence of his skills which will eventually displace him not only in his family milieu but in the industry and region in which he has matured. The emphasis, which Professor Schwartz made clear, is that continuing education must increasingly be a local function geared not only to local economic needs but also to individual personal preferences and needs of the workers if it is to become an effective source of personal rejuvenation and regeneration as well as an effective source of manpower for the evolving industries and higher technology skill needs. This was also apparent, although at a higher level of skills, in the Centre Interentreprises de Formation et d'Études Supérieures et Industrielles. Running through these three types of efforts—the new legislation, the work at Nancy, and the work at the centers—is an awareness of the worker's need for basic and fundamental education as well as occupational education throughout life if he is to be productive within his vocation and within the society.

A final interesting aspect of these three efforts is their tripartite nature. The degree to which labor unions, management, and government agencies concerned with education and labor are drawn together in a common effort to design and effectuate education and training programs is an important ingredient for their success. Permanent and continuing education is obviously

seen as an item which affects equally the government, the industry, and the labor union. It is recognized that without the involvement of any one part of this triumvirate there can be no effective solution to the problem of workers' skill obsolescence and frustration. When one recalls the polarity which has existed in the past between industry and labor in France, it is doubly evident that the French have now come to appreciate the crucial significance of a permanent education program for the continued economic expansion and social stability of the country.

IV. The German Model: An Active Human Resource Investment Program

West Germany's Employment Promotion Act of June 25, 1969, is undoubtedly one of the most intelligent and progressive manpower policies to be found among the industrialized nations of the world. In brief, in the words of one German official: "This Promotion Act established the right of German workers to take training and education for a new profession or to train for additional skills in their own profession and to be subsidized during the period of training." When one looks at the manpower, employment, and training programs of the Federal Republic of Germany, one cannot help but sense the real tragedy of the so-called education and manpower programs of the United States. The Federal Republic of Germany has, over the last several years, adopted the means of using its manpower resources in the most logical and intelligent manner in order to maintain high productivity, to compete effectively with other industrialized nations of the world, including the United States, and to provide the average German worker with a basis for continuously upgrading his skills and living as a self-actualizing, productive individual.

The Creating Forces

The 1969 Act is an outgrowth of the efforts by various employer groups as well as the trade unions to exert pressure on the Labor Ministry of the federal government to develop the program. This pressure developed not only because of retraining problems resulting from technological displacement of some industries and some skilled workers but also because of the increasing competitive effects of the common market on agricultural workers in various parts of Germany. An additional pressure point for the development of the program was the necessity for industry in general to upgrade skills and increase production in order to match the competitive gains of other countries. Very logically, but contrary to what usually occurs in the United States, the efforts of the government to involve itself in a serious upgrading and retraining program evolved during an extremely tight labor market situation. Ordinarily, one feels that the government should involve itself in such an effort when the competitive pressures of the labor market are slackening and there is a large surplus of unused manpower which will tend to be wasted unless retrained or upgraded. Hence, in the United States the government has usually become involved in "manpower demonstration programs" only when there was an obvious waste of human resources because of a recession or because of the exigencies of a so-called hard-core unemployed and unemployable sector of the labor force. In Germany, the converse position has been taken; very sensibly, the government has taken the position, with initial support from industry and the trade union movement, that during

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periods of labor shortages and incipient inflation it is most urgent to do whatever is necessary in order to provide the basis for upgrading individual skills and gaining increases in productivity.

The Eternal Key Question: How Does a Trainee Get Paid While Getting Trained and Educated?

The truly unusual aspect of the 1969 legislation was the provision for increasing the subsidy to workers who were returning to education. This subsidy provides for not only all of the educational costs but also for personal economic needs and family allowances. Thus, as will be shown below, the average German worker who participates in a training, retraining, or educational situation, for as long as two years on a full-time basis, receives not only his education free of charge, but also, on the average, approximately 70 percent of his former wage while in training! The Germans have very sensibly understood, and acted on the understanding, that the average adult who has family responsibilities cannot readily utilize free education programs unless, along with the subsidized education, he is provided a subsidy for his own personal economic needs and those of his family. It is appalling that the United States has not taken similar action at this point in time because the GI Bill in essence did exactly this immediately following World War II. It provided the means for millions of young adult Americans to return to training and educational situations which, by virtue of the gains in skills and higher productivity, more than paid for the direct educational costs and the personal income subsidies provided to the veterans. The Germans have merely profited from that successful experience in the United States by building an effective manpower program which has resulted in a constant upgrading of skills and a logical allocation of skill resources in the labor force. It has also helped to obtain the current below-one-percent level of unemployment.

Since the middle 1960's there has been a gradual move in the direction of subsidizing the further training of employed and unemployed German workers. The 1969 Act was based on earlier pieces of legislation going back to 1964. It improved on the size of the allowances to be given during the training period and on the scope of training which is permitted.

How Many Are Being Trained and Who Pays for Training?

At the present time, approximately 1 percent, or over a quarter of a million, of the total labor force of the Federal Republic is involved in training under the retraining and education programs afforded by the various employment promotion acts since 1964. Although the first act which moved in the direction of a continuing education and training program was actually passed in 1964, it wasn't until approximately 1966 that sizable numbers of individuals began to come into the program. But only after the Act of 1969 did the program begin to expand extremely rapidly. For example, expenditures for

individual grants to promote vocational education under vocational upgrading, retraining, and rehabilitation programs increased from 277.4 million Deutsche marks in 1969 to 975 million in 1970. It is estimated that such expenditures may have been as much as 1.6 billion Deutsche marks in 1971 and that they may go as high as 1.9 billion in 1972. These figures mean that, taking into account increased personnel costs, more than one-half of budgetary outlays for manpower programs will be for activities which played only a minor role before 1969.

Funding for the entire program is based on contributions to the unemployment insurance fund. The Federal Republic is considering raising, as of January 1, 1972, contributions from 1.3 percent to 1.8 percent of earnings, which are shared equally by the employer and the employee. The 1969 manpower development law established the contribution rate of 2 percent of earnings, equally shared by employer and employee, but with the proviso that the federal government could temporarily determine a lower contribution rate on the basis of a government executive order "if economic conditions so permit." In recent years the contribution rate has remained at 1.3 percent. The contemplated increase in the contribution rate to 1.8 percent could produce an additional income of 1.4 billion Deutsche marks annually. This is necessary in order to settle financial difficulties which had begun to arise with the tremendous upsurge of German workers who sought to take advantage of the new 1969 law.

Prior to 1971 the income from contributions for unemployment insurance payments during May and June was sufficient to overcompensate the deficit accrued during the winter months. This changed in May 1971; the unemployment insurance system registered a deficit of 141 million Deutsche marks (as against a surplus of 27 million in May 1970). In June 1971 it was expected that there would be a deficit of 50 million Deutsche marks (as against a surplus of 78 million in June 1970). The total deficit for the first half of 1971 is estimated at 900 million Deutsche marks. For the whole year the Federal Employment Institution expected a deficit totaling 750 to 800 million Deutsche marks as a result of likely surpluses during the period August through October 1971. There are now estimates that the deficit in 1972 may total another 750 million Deutsche marks. This would bring the present total accumulated unemployment insurance reserve of 4.7 billion Deutsche marks down to less than 4 billion by 1972 as compared with a total budget of over 5 billion Deutsche marks. However, as indicated above, it appears that the increase in the contribution rate for unemployment insurance payments will be such as to provide the means of regaining the financial viability of the program.

Members of the Federal Employment Institution told me that they regarded as archaic and extremely unproductive the practice in the United States of

using unemployment insurance funds only for payment of benefits to the unemployed. To them, it seems quite clear that unemployment insurance funds in the United States could be most logically used, as in Germany, to prevent unemployment and unemployability as well as to compensate persons who become unemployed. This idea to utilize unemployment insurance reserves as a source of training and education funds is one which was put forward a number of times during the Kennedy and Johnson Administrations. Mr. Stanley Ruttenberg, when he was Assistant Secretary of Labor during the late 1960's, indicated that some of the unemployment insurance funds should be utilized in the Manpower Development and Training Program as well as in the development of entirely new types of educational and training programs essential to the larger manpower policies especially concerned with the so-called hard-core unemployed. The practice in Germany appears to indicate the validity of this approach. Under the Employment Promotion Act of 1969, the German government is committed to grant subsidies and loans to young persons and adults in order to enable them to receive a variety of broad-support benefits which would provide them with the means of continuing to be productive in the labor force. This includes appropriate vocational training as well as basic education where it is relevant and other types of continuation courses, including correspondence courses, in order to prepare them for an occupation. It is instructive to note that under the new law the effort is to be broken down into programs concerned with further in-depth training of individuals to upgrade old skills and vocational retraining for those individuals for whom it is felt a new skill or career is more logical than further training in their old skill.

Under the in-depth training part of the law, the incentives will normally be granted if the duration of the educational effort does not exceed two years. However, this time limit is not to apply to programs where instruction is provided concurrently with the person's work in the form of on-the-job training for a higher skill. The incentives, including free education as well as maintenance allowances or other subsidies, were developed in such a way as to enable the individuals to be promoted, to adapt their knowledge and abilities to the requirements of their occupations, to enable women jobseekers to enter or reenter the employment market, to enable individuals to pass a final test (a trade test that they had not hitherto taken), to give insructors basic and further training, and to resettle aging jobseekers. A special provision in the law indicates that participants in full-time instruction and training programs will be paid a maintenance allowance. Participants in those programs where instruction is provided concurrently with their work, or on the job, will be paid a maintenance allowance if they miss more than one-third of the normal weekly hours customarily observed in that work establishment as a result of their attending the education program. Further, the law is quite clear that the maintenance allowances will consist of not only

a basic amount for every individual but also family supplements geared to the number in the family. The table (p. 46) indicates that the amounts were calculated in relationship to the student's normal remuneration on the job. In the event that it is deemed impossible to determine the maintenance allowance, then it will be equivalent to the normal amount of unemployment insurance benefits.

Other Sensible Aspects of the 1969 Law

Since the overall objective of this law is to place individuals in a position to become more productive in an intelligent and logical manner, provisions were made to assist individuals upon the completion of their programs if employment is not immediately available. If a participant is unemployed within the first six months following the conclusion of a program, he has to be paid a maintenance allowance for the first 78 days of unemployment, or if the program lasted for at least one year, for the first 156 days of unemployment. In this case, the allowance would be 15 percent less than the rate calculated on the basis of his full-time involvement in the training program. This would appear to make sense and would be similar to the early philosophy embodied in the unemployment insurance program in the United States wherein the major objectives were seen to be twofold: first, to provide approximately 50 percent of the individual's former level of remuneration while employed; and second, to give that individual a fair opportunity to find the sort of job for which his training and experience had best equipped him. It was intelligently seen in the United States back in the 1930's that if an individual were able to find a job in which he could use his highest skills he would be of more value to the society than if he were forced to accept a job far below his skill level. The German law also obviously aims at society's utilizing what the individual has been trained for by giving him a longer period of time to locate a job than would normally be the case following education and by subsidizing him while he is looking for a suitable job. On the other hand, the German law is not lenient on an individual who drops out of an education program before he is in a position to utilize training for which society has paid. If, without a valid reason, the recipient of a training maintenance allowance ceases to participate in a program before the program is completed, he is not entitled to either unemployment benefit or unemployment assistance during the period of the program. This is fair because the government pays for all teaching expenses, teaching equipment, travel expenses, the costs of working clothes, sickness and accident insurance contributions, and, if a participant has to live away from home, the costs of his board and lodging.

With reference to the retraining of individuals for new skills and new careers, the federal government, through the Federal Employment Institution, grants incentives to jobseekers to participate in programs designed to enable

Maintenance Allowances

Under 1969 Act in West Germany

Remuneration		Unit wage	Basic amount	Maximum
Per week				
From	To	DM		
DM				
1		2	3	4
7.50	12.49	10	7.20	9.—
12.50	17.49	15	11.40	13.80
17.50	22.49	20	14.40	17.40
22.50	27.49	25	18.—	21.60
27.50	32.49	30	21.60	26.40
32.50	37.49	35	22.80	27.60
37.50	42.49	40	26.40	31.80
42.50	47.49	45	30.—	36.—
47.50	52.49	50	33.—	39.60
52.50	57.49	55	36.60	43.80
57.50	62.49	60	39.60	48.—
62.50	67.49	65	43.20	52.20
67.50	72.49	70	46.20	55.80
72.50	77.49	75	48.—	60.—
77.50	82.49	80	51.—	64.20
82.50	87.49	85	53.40	68.40
87.50	92.49	90	56.40	71.40
92.50	97.49	95	58.80	75.60
97.50	102.49	100	61.20	79.80
102.50	107.49	105	64.20	84.—
107.50	112.49	110	66.—	87.60
112.50	117.49	115	69.—	91.80
117.50	122.49	120	71.40	96.—
122.50	127.49	125	74.40	100.20
127.50	132.49	130	76.20	103.80
132.50	137.49	135	79.20	108.—
137.50	142.49	140	81.60	112.20
142.50	147.49	145	84.—	116.40
147.50	152.49	150	86.40	119.40
152.50	157.49	155	89.40	123.60
157.50	162.49	160	91.20	127.20
162.50	167.49	165	94.20	129.60
167.50	172.49	170	97.20	133.20
172.50	177.49	175	99.60	135.60
177.50	182.49	180	102.—	139.20
182.50	187.49	185	104.40	141.60
187.50	192.49	190	107.40	145.20
192.50	197.49	195	109.20	147.60
197.50	202.49	200	112.20	151.20
202.50	207.49	205	114.60	154.20
207.50	212.49	210	117.60	157.20
212.50	217.49	215	119.40	160.80
217.50	222.49	220	122.40	163.80
222.50	227.49	225	124.80	166.80
227.50	232.49	230	127.20	170.40
232.50	237.49	235	129.60	173.40
237.50	242.49	240	132.60	176.40
242.50	247.49	245	134.40	179.40
247.50	252.49	250	137.40	183.—
252.50	257.49	255	139.80	186.60
257.50	262.49	260	142.80	190.20
262.50	267.49	265	144.60	192.60
267.50	272.49	270	147.—	195.60
272.50	277.49	275	150.—	199.20
277.50	282.49	280	151.80	202.80
282.50	287.49	285	154.20	205.20
287.50	292.49	290	157.20	208.80
292.50	297.49	295	159.—	211.80
297.50	302.49	300	161.40	215.40
302.50	307.49	305	164.40	217.80
307.50	312.49	310	166.20	221.40
312.50	317.49	315	168.60	225.—
317.50	322.49	320	170.40	228.—
322.50	327.49	325	172.80	231.60
327.50	332.49	330	175.20	234.—
332.50	337.49	335	177.60	237.60
337.50	342.49	340	180.—	241.20
342.50	347.49	345	181.20	243.60
347.50	352.49	350	183.60	247.20
352.50	357.49	355	186.—	250.20
357.50	362.49	360	187.20	253.80
362.50	367.49	365	189.60	257.40
367.50	372.49	370	191.40	259.80
372.50	377.49	375	193.80	263.40
377.50	382.49	380	195.60	266.40
382.50	387.49	385	198.—	270.—
387.50	and over	390	200.40	273.—

Source: Employment Promotion Act, 25 June 1969 (Federal Republic of Germany), p. 101.

Note: All figures are in Deutsche marks. The unit wage is the mid-point of each remuneration range, and is used to estimate benefits.

them to transfer to some other suitable form of employment, with the particular objective of improving or ensuring their occupational mobility. All of the incentives previously indicated as being provided expressly for the purpose of further in-depth training also apply to the retraining of individuals for new careers; e.g., the trainees are given basic maintenance allowances as well as family supplements, along with free education. In addition, the Federal Employment Institution has the responsibility of granting subsidies to employers for employees who must have an initial period of adaptation to achieve maximum efficiency in their jobs. An "adaptation subsidy," as described in the law, is not normally granted to an employer for longer than one year for any one employee. The amount payable to an employer for the entire adaptation period does not exceed 60 percent of the remuneration payable by collective agreement; or, in the absence of a collective agreement, the remuneration customarily payable in the locality for the occupation of the employee. The employer pays the full wage to the employee during his adaptation period, and then the employer receives a 60 percent rebate from the Federal Employment Institution.

Institutional Grants and Subsidies and the Use of For-Profit Educational Institutions

Under a separate section of the 1969 law, there were a series of incentives, mostly of a financial nature, to institutions for the establishment of vocational training programs. Interestingly, these various loans and subsidies for construction, extension, and equipment of institutions, as well as subsidies to expand present training and educational operations, were also to be made available to "for-profit" organizations if it could be shown that education and training programs could not be established in any other way or carried out on a sufficiently large scale or in a sufficiently meaningful time period. The overall objective of the Federal Employment Institution, according to various German officials with whom I talked, is effective training and retraining. If it can be shown that this overall objective cannot be met either in terms of sufficiently large-scale efforts or in terms of a decent time interval without funding for-profit operations, the Federal Employment Institution does not seem to have any philosophical block against utilizing the private sector.

This practice has special relevance for the United States where, to a great degree, vocational education funds have been extremely limited for the for-profit institutions. Although federal and state legislation usually allowed for loans or grants to for-profit institutions to conduct vocational training, in too many instances the funds available for such purposes were withheld for long periods of time in order to promote the development of similar programs in the public school system. Unfortunately, this has often resulted in the loss of valuable time for applicants who wished to obtain skill training in a number of fields for which the public schools were not geared up, but for

which private for-profit schools had facilities and programs. In addition, on the basis of this author's experience, too frequently the public schools developed programs to obtain funds but failed to involve industry people who should have been utilized in the development of a relevant curriculum and of employment channels.

Helping the Trainee Get the Job

After the period of training or retraining, the new law also provides for a series of incentives to individuals seeking to enter the labor market. For example, there are subsidies which can be obtained by jobseekers for defraying the costs of applying for employment: for traveling and moving expenses in the event that this is necessary in order to obtain employment; for the purchase of necessary work equipment; for separation allowances if separate households have to be maintained as a result of persons entering employment in a new locale; for transition expenses, if necessary, for a maximum of two months when individuals move from one geographical area to another; for special escorts which may be necessary in the case of groups of persons traveling together to take up employment in another locality — presumably in the case of older people; and finally, for other types of assistance not specifically covered under the Act which can be shown by individuals seeking employment as being necessary to facilitate their entering employment. Loans may also be made available for most of these types of costs rather than straight subsidies or grants. In addition, the Federal Employment Institution may grant a subsidy or loan for the establishment of hostels for employees to facilitate their relocation in a new labor market.

I recall some years ago under the early U.S. Manpower Development and Training Act Program that there were a number of successful education and training programs in the South where blacks were given in-depth education and training to equip them for jobs available in distant metropolitan areas. Living allowances were provided for the blacks when they located jobs in cities which were sometimes as far away as 600 or 700 miles. It was found, however, that because there was little or no low-income housing available, the individuals who had been trained could not relocate. Hostels, as provided for by the Germans, might help where it can be shown that lack of housing is an obstacle to relocation. An alternative technique, of course, might be special rent subsidies to cover a six-month to one-year period, if it can be shown that housing poses an obstacle to movement by an individual who has been trained for a job which is available in a city with little or no housing within his income range.

Other Broad Aspects of the 1969 Law

The Employment Promotion Act of 1969 is far more inclusive than would be gathered by what has been covered in this chapter. The Act is concerned

with the very broadest type of manpower policies and programs, including benefits to individuals who find that such handicaps as physical and psychological problems are their major obstacles to employment. For example, under this Act the Federal Employment Institution may grant employers training subsidies to provide physically, mentally, or psychologically handicapped persons in-plant training in an occupation if such training cannot be arranged in any other way. A training subsidy would be granted for the duration of the training. It would not normally exceed the monthly rate of the training wage payable by the employer during the last year of training. The Act also provides for the granting of loans and subsidies for the construction, extension, and equipment of workrooms where workplaces would have to be accommodated to the special circumstances of handicapped persons.

Some parts of the Act were concerned with rather interesting and innovative approaches to dealing with seasonal problems affecting specific industries such as the building trades. A special section was devoted to "bad-weather allowances" as a means of dealing with seasonal variation in employment in the construction industry. It is not the purpose of this report, however, to cover any of the other, though innovative and interesting, sections of the Employment Promotion Act of 1969, but rather to focus on the continuing education and training aspects of this new law.

How Well Has the Program Worked Thus Far?

Of course, one must question the degree to which the new law has been able to achieve its objectives. The first objective was to provide the manpower in the German economy with the means of continuing to upgrade skill level and permit transfers of individuals from obsolescing skill areas into new types of skills and industries. A second objective, of course, was to provide essential basic education for those German workers who, because of a lack of such education, could not acquire technical skills. A third objective, stated by many individuals with whom I spoke, was that of permitting German workers to break out of old caste systems where their skill was related psychologically to the skill of their fathers and grandfathers. An effort was made to move away from the remnants of an employment caste system to a modernized industrial system where an individual's skill level and career reflect more nearly the demands of the economy rather than a value system related to tradition and family careers. It is interesting to note that in 1968 a survey of the 1964 training program graduates indicated that over 85 percent of the graduates from that program had attained their training and employment objectives.

At the Institute of Employment Research in Erlangen, which is a department of the Federal Employment Institution, research programs have begun to determine the effects of the various manpower programs established since

1964 and culminating with those established under the Act of 1969. As has been indicated earlier, beginning in 1964 the German government began to take steps to subsidize, both in terms of the direct educational costs and personal economic needs of the student, training for higher skill levels. The work which has been done thus far to determine the effect of these programs relates almost entirely to the 1964 and 1966 legislation. Bearing in mind that the programs developed under the 1964 legislation were the same as those developed in 1969 with the exception that the 1969 programs were broader in scope and the subsidies were more effective, it is instructive to look at some of the results which research indicates have been derived from the 1964 legislation in terms of evaluating the results desired by the Federal Republic of Germany with regard to manpower upgrading, skill mobility, and increasing productivity.

In 1964, under the Act of that year, there were 15,460 grant recipients, as compared with close to a quarter of a million recipients in 1971. Of these 15,460 grant recipients 8,700 were evaluated and surveyed in 1970 by the Research Institute in Erlangen to determine the results of the 1964 grant. It was found that approximately 60 percent of the male grantees and 56.5 percent of the females came from the ranks of craftsmen. Next in order of importance were technicians: among the men, 29 percent; and among the women (social workers and nurses), 22 percent. The major training courses attended by *men* were in this order: machinists, 16 percent; master painters, 8 percent; master bricklayers, 7 percent; automobile mechanics, 6 percent; and electricians, 5 percent. Among the *women,* the courses attended were haute couture, 26 percent; child care, 19 percent; beauty culture, 19 percent; fashion design not specified as haute couture, 10 percent; and senior nurse or dietitian, 5.3 percent. In terms of the distribution by sex for all grant recipients in 1964, 6.5 percent of them were women, although women make up 42 percent of the work force in the particular professions studied. (In 1970, however, the percentage of women trainees had risen to about 9 percent.) As to the age breakdown in 1964, 45 percent of the participants were below 25 years of age and only 15.8 percent were above 30. (By 1970, however, these percentages had shifted radically so that 35 percent of the participants were below 25 years of age and 30 percent were above 30 years of age.) The majority of the grantees in 1964 had between two and 10 years of job experience. In the six-year period between 1964 and 1970, when the survey was undertaken, 67.3 percent of the men and 83.4 percent of the women had changed jobs. Where the change involved going to a different employer, the shift was generally away from medium-sized companies toward larger corporations.

Among the male participants, 83.6 percent had grade schooling plus vocational training; only 10 percent were high school graduates with vocational training. Among the 1964 grantees, 92.8 percent pursued a full-time course

of study. (By 1970 this figure was down to 67.2 percent. Conversely, the number of part-time students rose from 7.1 in 1964 to 32.8 percent in 1970.) Most of the full-time courses lasted somewhat beyond six months, while those pursued on a part-time basis tended to last closer to a year. A brief recap of the experience of the 8,700 grantees between 1964 and 1970 follows: (1) *occupational advancement* (becoming independent or advancing to a supervisory position): 60 percent of the men and 71 percent of the women; (2) *earnings:* in the six-year period the average earnings of men who had pursued a vocational training program rose by 67 percent compared to a national average for men of 28 percent; (3) *professional fulfillment:* 78 percent of the men felt that they had achieved their pretraining job target; 19.4 percent reported that their advancement had fallen short of expectations; (4) *usefulness of knowledge and skills obtained:* 76 percent of the men reported that the new skills and knowledge were valuable in their new occupations; 21 percent felt that they were of limited value. On the basis of responses from the sample group to these four criteria, a "success index" was compiled by the researchers at Erlangen. The large majority of the sample were males; for them, the success index indicated that (1) 60 percent achieved "unqualified success" (ranging from a maximum of 67 percent for master craftsmen to a minimum of 47 percent for technicians); (2) 26 percent, "partial success and advancement"; (3) 7.4 percent, "failures" (mostly in white-collar occupations); (4) 6.7 percent, "no response."

There was a close correlation between the type of course pursued and the rate of failures. Only 6.9 percent of full-time students failed to advance in the six years compared to 12.5 percent of the part-time students, and 21.9 percent of the correspondence course students. Age was another prime factor, with those above 35 reporting twice the failure rate of those in the lower age group. The 25-30-year bracket scored the highest rate of advancements and the smallest number of problems in pursuing the courses. Family background proved to be another factor, in that the sons of independent businessmen, for example, had the highest rate of advancement. Surprisingly enough, the educational level prior to the training program (grade school *versus* high school) had no appreciable effect on the rate of promotion.

Growing Pains and Learning How To Invest in Human Resources

The large majority of grantees reported difficulties of one sort or another; only 20 percent reported no difficulty. Some students felt that there was an excess of demand placed upon their time, that the educational program lacked organization, and that teaching methods were faulty. These findings were supported in part by the interviews I had with a number of persons in government organizations who are involved in the program. They reported that at the beginning there was a severe shortage of counseling, which they felt was absolutely necessary for a successful program. In addition, they felt that the

large number of persons who were attracted to the program overwhelmed them because they had planned for a much smaller number. The theory amongst those with whom I spoke in the government agencies was that the sense of frustration on the part of the students grew out of the fact that the numbers of German workers who enrolled in the program far exceeded expectations of the program planners.

A number of the individuals with whom I spoke in the Federal Employment Institution took the position that there is still a great deal to learn about techniques of adult education. They felt that, to begin with, the counseling service must be significantly different from the type which was traditionally given to younger people who were still in a formalized school structure. They felt that the counseling must be geared to determining where the adults are — not for the purpose of filtering them out of a program, but for the purpose of determining what additional enrichment or tutorial services they need in order to succeed in the program. The counselors with whom I spoke felt that the intensity of motivation of adults was more than sufficient to overcome the handicaps or deficiencies which might be present in terms of basic education or even technical skills. It was their considered opinion that, given these high motivational levels, adults would be in a better position to pursue courses that are extremely demanding of their time and personal involvement than would many younger people.

With reference to that part of the training program which is essentially basic education, the interviews which were conducted indicated a tremendous variation in the felt need for such basic education. Among the members of the business community, it was apparent that their most intense felt need was for skill and vocational training. A number of individuals in government, however, and many counselors felt that almost 30 to 40 percent of the total time must be spent in such basic educational subjects as communications, basic mathematics, and possibly civics or urban living. Many of the individuals in the governmental group also felt that, especially for agricultural workers, it is absolutely essential that a greater proportion of time be spent on basic subject matter, particularly those types of subjects which would prepare them for living in urban areas. All of the individuals in government as well as industry, however, agreed that basic education must be provided if it is a necessary steppingstone for technical skills. Hence, there was no disagreement over such types of education as basic mathematics, computational skills, and communications, both written and oral. Above all, the point was made by industry and governmental people that what is necessary is the basic and fundamental educational underpinning upon which good technical education can grow and without which no technical education can be provided in a meaningful manner.

In the beginning under the 1964 legislation, the overwhelming majority

of the workers engaged in the educational and training programs were essentially those pursuing continuing education dedicated to upgrading skill levels. The minority were involved in retraining programs. By 1970, however, this situation had been altered so that although there were still many more workers involved in continuing education to upgrade their skill levels, there was a substantial increase in the percent of all workers who are concerned with retraining for new skills. In addition, by 1970, approximately a quarter of all the workers involved in training programs were the so-called hard-core unemployed workers. The term "hard-core" in Germany means mostly older workers who do not wish to move from the area in which they are living and do not wish to go into any sort of extensive training or retraining program. The programs for these older workers are essentially somewhat shorter in duration than other programs. They are essentially economic development programs that seek to relocate industries in areas of substantial labor surplus. Hence, one would find that where the older workers, who oftentimes are agricultural workers, are training for new skills, the educational efforts which are being made on their behalf and the educational institutions in which they are enrolled are geared to industries which are either in their locale and need new workers or industries which are entering that geographical area. The skill training for these older, hard-core workers is calculated to fit in with the industrial needs of the particular geographical area.

Training Versus Basic Education

One of my major interests in the general area of continuing education is with basic education for adults so that they may be in a better position to understand the nature of the changes taking place in their society and by virtue of an adequate education engage themselves in intellectual pursuits as well as in work. When, during an interview, I would pose a question about basic or general educational inputs, the reaction was usually negative. Most frequently, the reaction was one of surprise that I should wonder whether German workers possessed sufficient skills in basic reading, mathematics, and civics to be able to comprehend the problems of the society in which they lived! To understand this surprise on the part of the individuals whom I interviewed, one must know that the German educational system has a minimal number of school dropouts as we understand that term and that there is apparently less need to question the quality or soundness of their basic early education than our own.

All Germans begin school at six years of age and must remain in school for nine years. There are three alternative courses of study. A student may remain in the primary school for nine years and leave school at approximately age 15. Or at age 10 a student may transfer to an intermediate school with the intention of going directly into a commercial occupation at the end of

six years. Upon completion of intermediate school, the student would enter the labor market with a high literacy level, computational skills, and a variety of skills calculated to provide him with the ability to work in a commercial organization. A third route which is open to the student is that at the age of 10, after having completed four years of primary school, he may go to a secondary school with the intention of entering a university at the end of nine years.

A student who remains in primary school for nine years either enters an apprenticeship training program or goes to work as an unskilled laborer. In the event that the student does not go into an apprenticeship program after completing nine years of primary school, he is obligated by law to attend vocational school one day a week for three years—until he is 18 years of age. Under the same law, an employer must see to it that an employee under 18 years of age attends vocational school and must pay the employee for the days when he attends school. About 90 percent of the young people who leave primary school at the age of 15 go into an apprenticeship program. Hence, most of the people in retraining programs under the new law or the older laws of 1964 and 1966 were individuals who had completed a fairly lengthy apprenticeship program as well as nine years of school.

Concluding Thoughts

The objective of both the retraining and the training program is to upgrade individuals to the highest possible level of competence consistent with their educational and experiential background and their potential. The variety of training areas which are available under the law of 1969 is extremely broad. The major areas of training for men are electronic data processing, electricity, mechanics, engineering, and other technical skills approximating the foreman level. In all of the technical areas such as electricity, data processing, engineering, and metal working, as well as in the building trades, the instruction includes a great deal of fundamental technical training. The individual would acquire a sufficient theoretical background so that he would not view himself as working by rote in a dull and uninteresting job. For women, the major areas of training are in food services, health and medical services, teaching, office work, social work, sales, beauty culture, and textiles. In all of these areas there is a sharp break between the training for technical skills such as are involved in, for example, glovemaking and the training for such fields as social work, teaching, and health or medical helping professions. In the latter areas there is a higher degree of theoretical subjects and fundamental inputs than would be necessary in training for glovemaking or other textile work.

It is, as has been previously indicated, too early to evaluate the effectiveness of the 1969 legislation; nonetheless, it is imperative to point out that at the present time 1 percent of the labor force in the Federal Republic of

Germany is involved in the ambitious training and retraining programs calculated to provide the participants (average German workers) with the means of attaining a more productive economic life and a healthier personal outlook in terms of their role in the society. This objective is being achieved by providing individuals with the financial underpinnings necessary for sufficient economic security along with the free education. When I, as an American economist long interested in the problem of upgrading human resources in the United States, looked at the essential logic, common sense, and basic humanity of this manpower education program in Germany, I could not help but deplore our own failure and lack of commitment as a nation to develop the potential of our human resources and provide the means for members of our labor force to develop a real sense of worth. When one looks at what has been achieved in West Germany as contrasted with what has *not* been achieved, or even attempted, in the United States, the tragic difference is both frustrating and embittering.

V. New Directions in the United States

The problem of unemployment in the United States will no longer respond to the solutions of the past. Chronic unemployment at high levels for the young and old, for the black and white, will become a part of our society just as surely as changes in our technology and production processes are a part of our industrial fabric. Unemployment insurance (UI) will continue to be paid, but it will become increasingly a form of "welfare" benefit; yet most UI recipients are not poor. The only true form of unemployment insurance in a technological, industrial society is a program of education and training which provides people with the skills needed in that society. It is just as simple as that!

Is the Choice Unemployment or Inflation?

Economists continue to be baffled by the fact that in the late 1960's there was increasing difficulty in the United States in cutting down on unemployment without increasing inflationary pressures. During the 1950's the level of unemployment could be pushed down below 4 percent without the rate of inflation rising above 2 percent. Since the 1960's, to drive unemployment down to 4 percent has meant driving the rate of inflation up to between 4 and 5 percent. Reasons of all sorts have been given for this phenomenon, but the most sophisticated and plausible one points to changes in the composition of the labor force and the types of people who are unemployed. Since the early 1960's people who have been out of jobs have been increasingly young, inexperienced workers or females. In all groups of unemployed workers there are far too many blacks—out of proportion to the percentage of blacks in the total population. The reasons given for these facts are, first, that since the early 1960's, the younger age groups in our population have increased more proportionately than the older groups, and it has become normal for wives to work. The second reason given is that unemployment rates for the young and for adult females are higher than for adult males. But this second reason only "begs the question" and never provides insight into why the young and adult women, as well as adult blacks, have a worse employment track record than the adult male, and largely white, population. Nor does it deal with the real paradox of the unemployment problem of the late 1960's—large numbers of unemployed *and* at the same time large numbers of job vacancies! It was in the 1960's that a term was used increasingly for a certain, and growing, type of unemployed—the "unemployable." Imagine the implication—the tragic absurdity—of that term in a society with job vacancies in the rapidly growing service sectors of our nation. No citizen of this nation who has experienced trying to have a car repaired; trying to purchase articles in a department store from untrained salespeople; trying to have a suit or dress repaired or altered; waiting for medical or health services; waiting for a

serviceman to repair a stove, furnace, or refrigerator; or who has been aware of the shortage of teachers and counselors for children with special problems could possibly accept the logic of the term "unemployable" without accepting the fact that we are no longer committed as a nation to the education and training of our citizens for the world of work.

There are just a few essential facts which must be understood and accepted if we are ever to get off the merry-go-round of unemployment accompanied by inflation. First, many of the jobs which were available in the past for the poorly trained or less well educated have disappeared. In 1940 this nation needed about 10 million farmers to feed a population of about 132 million people. By 1970, with a population of over 200 million people, we needed only about three million farmers. Back in 1952, when I was an economist in the Bureau of Mines, U.S. Department of the Interior, there were close to 450,000 coal miners producing about 400 million tons of coal. Today 100,000 coal miners produce far more coal than that. Throughout our economy the same picture is true of the old type of low-skill employment.

Training and education are essential for a decent job in our modern society. But beyond that, reentry into the educational system is equally essential in our new world of work. Not only do the new jobs call for skills resulting from training and education, but the nature of our jobs is such that even high-skill jobs phase out or are changed, so that new skills must be acquired by many *already skilled* people if they are to remain employable *throughout life.* And this is increasingly important since people live longer than formerly and are healthier for a greater part of their lives.

Actually, all the new problems pertaining to unemployment, unemployability, and inflation grow out of our refusal as a nation to face up to an essential fact of life in the fast approaching 21st century: *Education throughout life is a necessary requirement for a meaningful life itself!* As individuals and as a nation, we either keep up or go down. We must now rethink our basic philosophy of education and develop a *reentry system* for the education and training of all citizens *throughout life.*

Manpower policies must be developed which are carefully calculated to provide sufficient funds to do the job, rather than to provide a limited demonstration to which political apologists can point. During the 1960's we did not have one single manpower program which set out to fund adequately a true job-training program for the 500,000 so-called hard-core unemployed. We never had the commitment to send these numbers of people into intensive, full-time education and training programs lasting the nine to 12 months necessary for them. We nibbled around the edges of a problem, camouflaged inadequate summer make-work programs as training efforts, and then wrung our hands and shed copious tears over "the failure of another manpower program." Our national hypocrisy is reflected in our high unemployment rates

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alongside inflationary erosion of our incomes and our national integrity. But the true tragedy is the fact that *we possess the means and the money to correct this situation almost immediately.*

But first let us look at the inflationary and unemployment situation in West Germany, where since the mid-1960's they have had an education and training program designed to educate and/or train people for the new types of job vacancies created by their growing, highly industrialized economy. In 1967 West Germany was just beginning to come out of a sharp recession which had begun in 1966. But the rate of unemployment was extremely low —well below what most politicians in the United States feel to be impossible for us to attain even at the height of a period of general economic prosperity! And the rate of unemployment was driven down below 1 percent by 1969 while the rate of inflation was held below the real gains in output until 1970, as can be seen in the table below.

Inflation, Real Output, and Unemployment Rates in West Germany, 1967-1970

Year	Rate of inflation* change from previous year (percent)	Change in real output from previous year (percent)	Rate of unemployment (percent)
1967	1.1	−0.3	2.1
1968	1.6	7.2	1.5
1969	3.5	8.1	.8
1970	7.4	4.9	.4

Source: For rate of change in inflation and in real output, *1971 Annual Report, International Monetary Fund* (Washington, D.C.), pp. 56 and 64; for rate of unemployment, *Year Book of Labour Statistics,* International Labour Office, Geneva, Switzerland, 1971, p. 422.

Note: The rate of unemployment is unadjusted.

*Percentage changes in GNP deflators, at annual rates.

The table shows that in 1969 unemployment was forced down to 0.8 percent while the rate of inflation increased over 1968, *but that real output more than doubled the rate of inflation.* In 1970, when the increase in the rate of inflation exceeded the rate of real output, the unemployment level *dropped* 50 percent below the 1969 level.

During the same period, the inflation-unemployment situation in the United States also changed, but in a remarkably different way, as can be seen in the table (p. 60). The increase in the rate of inflation did little or nothing

to affect the level of unemployment from 1967 to 1969. In 1970 *both* the rate of inflation and unemployment rose considerably. For those economists and politicians who support the Phillips curve thesis, which states that we have to trade off between inflation and unemployment, these findings should be disheartening. In 1968 and 1969 very little employment was gained by a large increase in the rate of inflation. But worst of all, in 1970 another major jump in inflation was accompanied by a major jump in unemployment.

Inflation, Real Output, and Unemployment Rates in the United States, 1967-1970

Year	Rate of inflation[a] change from previous year (percent)	Change in real output from previous year (percent)	Rate of unemployment (percent)
1967	3.2	2.6	3.8
1968	4.0	4.7	3.6
1969	4.8	2.5	3.5
1970	5.5	−0.6	4.9

Source: For rate of change in inflation and in real output, *1971 Annual Report, International Monetary Fund* (Washington, D.C.), pp. 56 and 64; for rate of unemployment, *Economic Indicators,* October 1971, prepared for the Joint Economic Committee, U.S. Congress, by the Council of Economic Advisers (Washington: Government Printing Office), p. 10.

Note: The rate of unemployment is unadjusted.

[a]Percentage changes in GNP deflators, at annual rates.

To gain an insight into where the real answer lies in terms of unemployment and its relationship to inflation and productivity, one must also look at the utilization of the nation's plant capacity—our lathes, generators, etc. Since 1968 the economy of West Germany has utilized its industrial plant capacity at a rate well above 90 percent. The United States index of capacity utilization in 1968 hovered just a hair over 90 percent; in late 1969 it commenced to drop sharply; at yearend in 1970 it was just above 80 percent. During the first quarter of 1970 the index for West Germany stood at 99.2 while for the United States it stood at 90.5. By the fourth quarter of 1970 the German index was 94.4 while the United States index was 82.5. In all fairness, the lower index in the United States reflects the recession which began in late 1969, but the major problem of resuming an industrial output level which would bring plant capacity utilization to the former high level is the lack of a labor force adequately educated and trained. The Germans have been able to build this into their industrial and service economy by virtue of the fact

that they use their unemployment insurance fund as a form of preventive medicine, while we specialize in the use of our unemployment insurance funds to lock barn doors after the horses have left.

The Supply of Manpower Is an Elastic Band: To Use It Properly, It Must Be Stretched

The Germans have utilized their supply of manpower to the fullest by virtue of two policies. First, they have minimized the waste of underutilized manpower by means of their training and retraining programs. They don't see unemployed or underemployed workers as "unmotivated, welfare types," as too many of the citizens in our country do. The Germans tend to see these people as a wastage of an important economic resource. The second policy the Germans have is that of importing workers for the lower skill jobs. As a result of these two policies, the Germans have been able to go far in keeping unemployment down, productivity high, and real output high; also, until 1970 their rate of inflation was manageable. On the other hand, we in the United States have been confronted by an excessive rate of inflation since 1968 and have not really attempted to utilize our untapped manpower resources, which have been languishing in our unemployment lines. Rather than launch a massive effort to educate and train, we have taken the defeatist attitude by shrugging off a 3.5 to 4.0 percent unemployment rate as a necessary evil in an advanced, industrial society.

And This Is How To Stretch It

As will be recalled from the chapter on West Germany, that country supports a voluntary education-training program for *all* German workers who wish to avail themselves of such an opportunity. And the program succeeds because the government not only pays for the education but also gives stipends to the workers so that their family obligations can be met, for the most part. The German adult who is out of a job or feels that his skill is obsolescing and will result in his unemployment can go to a full-time training program which is free and also receive a stipend, which on the average covers about 70 percent of his former wage. Thus the German worker isn't told that a free training and education program awaits him if, somehow, he can place his family in a state of suspended animation and convince his landlord not to ask for rent.

The West Germans have used their unemployment insurance fund to provide the necessary expenditures which have made their training and education program a success. If there is any doubt, look at the difference between unemployment levels in West Germany and the United States. And if there is any further doubt, just recall the numerous typical statements coming from our industrial leaders during the 1960's that there were jobs going begging

while thousands of the unemployed simply didn't have the education or skills to be given the jobs. Can we do what the Germans have done with their unemployment insurance fund?[1] Yes, but only if we make some basic legislative changes and rethink the basic use of such a fund. Indeed, with the sort of "surgery" called for, it would be wiser to abandon the unemployment insurance law and concept, both of which reflect the problems and needs of the 1930's, and move to a completely new approach.

To begin with, how much money are we talking about in the funds which are set aside to deal with unemployment insurance payments? The table below shows the funds available, as well as the amounts which have been paid out.

Year	*Total of reserves in state unemployment insurance funds as of June 30 (millions of dollars)*	*Total UI benefits paid (millions of dollars)*
1967	10,272	2,220
1968	11,093	2,191
1969	12,088	2,298
1970	12,444	4,143

Source: For total reserves, *Unemployment Insurance Statistics,* monthly publication of Manpower Administration, U.S. Department of Labor; for total benefits, *Economic Indicators,* October 1971, prepared for the Joint Economic Committee, U.S. Congress, by the Council of Economic Advisers (Washington: Government Printing Office).

Even in a recession year, such as 1970, the gap between the reserves and the amount paid out gives one pause to wonder whether this huge sum could be a source of funds for education and training. But let's ask ourselves how much it would cost to start a program along the lines of the West German one. The Germans have about 1 percent of their labor force in the current early stages of their program. A 1 percent figure for the United States at present would be about 800,000 workers. If we assume that the average education and training program would cost $2,000 per person in direct educational costs, the total educational bill would come to $1.6 billion. If we further assume that the average adult worker who needs and wants such training has an average income of $8,000 per year, a stipend of 70 percent would be $5,600 a year or a total of about $4.5 billion. Thus, the total of funds needed to provide 800,000 workers with the education and training necessary to equip them for the new jobs in our new technology would come to $6.1

[1]Mr. Stanley Ruttenberg, when he was Assistant Secretary of Labor during President Johnson's Administration in the mid-1960's, suggested using the interest on UI reserves as a means of expanding our manpower training programs. Mr. Saul J. Blaustein, of the W. E. Upjohn Institute for Employment Research, has also been advocating this practice.

billion. (And of course higher taxes would be paid on higher wages.) In 1970, after paying out unemployment benefits, there was still a reserve of over $12 billion. Can we move ahead now and develop such an education and training program, utilizing the unemployment insurance funds? The answer is no—not unless we make several basic changes in our attitude toward unemployment—what causes it and the role of the state and federal governments in dealing with the problem.

To begin with, the vast sums of unemployment insurance funds are held by the 50 individual states and the District of Columbia. The funds are amassed on the basis of employer contributions—really a payroll tax—with some "forgiveness" of this tax depending on the rate of employee turnover in each firm. Thus, if the turnover is low, the employer tax is low. The individual states have their own employment services, along with their own funds. During a period of economic downturn, if a state has more than a proportionate share of firms or industries which are hard hit by the recession, its UI reserves melt away more rapidly than those of other states. A near zero balance in one state and higher remaining reserves in another state are not unusual during a prolonged recession. But with the ever recurrent arguments that the state employment services should be federalized, the critics of the current system are quickly put to rout. Fifty state power structures, officeholders, etc., are difficult to dislodge. A real national emergency such as World War II is what seems to be the only means of achieving the changes needed. During World War II the employment system was federalized, and efficiencies in placing people and in coordinating manpower policies were achieved. We should now move to "federalize" at least the total of state unemployment insurance funds. A major economic recession which affects two or three states all out of proportion to the national situation should be seen as a national calamity rather than one which must be borne by the limited funds available to those states.

The ability to deal with an extended unemployment situation also varies among the states depending upon the employer tax rate set by each state as well as the "taxable payroll," as defined by each state. Thus, taxable income varies from $3,000 to $3,600, and the tax rate itself can go from a low of 0.12 (in Texas in 1970) to a high of 1.96 (in Alaska in 1970). These were *effective,* rather than statutory, rates. The highest state statutory rate is Michigan's, 6.0 percent in 1970. In 1970 the United States average employer's unemployment insurance tax was 0.64, or little more than one-half of 1 percent of the payroll. This is less than half the German rate or the planned French rate.

Beyond the funding question lies the problem of tremendous variation in the sophistication and quality of the separate state unemployment insurance systems. In this study only the subject of reserves will be seen as of interest to the topic.

Finally, there must be basic changes in our way of thinking about the unemployed and the use of unemployment insurance funds. The overwhelming majority of the unemployed in this nation are involuntarily unemployed and would rather receive a decent wage for work done than a dole. Those who wish can always cite cases of indigent individuals who have made the welfare dole a way of life. So also can most middle and upper income families quietly acknowledge the occasional son of a wealthy family who was taken into the family firm and who squandered time and funds, but was protected by the "old man." But most children in most families wish to become productive individuals for the benefit of themselves and the society at large.

Those who come from poor families, poor communities, and poor school systems don't have the option of teenage retirement into a protected family job. Nor do they have the funds to obtain education or technical training beyond what was given by an inadequate school system. And beyond this group is the great number of productive trained adults who when technologically unemployed lack the funds to obtain the education and training required for the new jobs in our ever-changing society. How does an unemployed coal miner get the funds to support a wife and infant, pay the monthly rent, and pay to attend a one-year school in automotive mechanics? The job is there for him when he graduates! But without the tuition and necessary economic stipend, he usually cannot begin school, much less graduate! Under the present system, he gets unemployment insurance which covers about a third of his former wage as a miner, for perhaps as long as a year, and then it's pure welfare. What waste! What nonsense!

The First Step: A Change in Philosophy

Our basic philosophy should accept the fact that a nation profits by providing the financial means to encourage adults to pursue continuing education and training as the means of remaining employed or moving into a better paying skill. This makes sense in every way. It can lead to better wages and higher income tax payments rather than welfare or unemployment insurance payments.

We must now move from an unemployment insurance fund to a National Economic Security Fund (NESF). The basic premise of such a fund is that an individual is entitled to the means for retraining or taking further training in order to achieve his highest level of personal and national usefulness. No one seeks to lower his income potential; almost everyone seeks to qualify himself for that job in which he is most productive and where the security and income best meet his individual or family needs. By providing the funds necessary to make this right a reality, the nation will benefit. Productivity will increase; people will move more freely into the tight labor market skills; the competition with foreign producers will be more effective; there will be fewer frustrations or "blue-collar blues" of workers who see no horizons for

sharing in the bright new world of technology; and finally local, state, and federal income tax proceeds will grow as a result of the more effective use of our manpower resources. This entitlement of every worker to train or retrain for a better job is a *national capital investment* which is basic to the functioning of a modern, industrialized economy.

There may be a number of situations where there are layoffs for short periods of time with good expectations and probabilities of workers returning to jobs which they enjoy and which pay well. There should be no compulsion for these individuals to go into training programs. They merely need, and should have, the economic sustenance required to carry them through a brief period of layoff. The Fund should pay security benefits to these individuals for as long as a year, if necessary.

Unemployment Insurance: An Inadequate Concept Whose Time Has Come To Go

Unemployment insurance is an inadequate concept for two reasons. To begin with, insurance assumes coverage for a loss or part of a loss. To a man who is unemployed for a prolonged period of time, receiving unemployment "insurance" payments amounting to about a third of what he formerly made when working hardly "covers his loss." His loss is economic, psychological, sociological, and, in some cases, medically traumatic. There is no true insurance for his loss short of the means of fitting himself for another or better job. The unemployment insurance concept is inadequate from a second viewpoint. Only people who have been in the labor force for a specified period of time, and for whom payroll taxes have been paid, are considered "insured"; only they can receive unemployment insurance benefits. But the problem of unemployment has become increasingly the problem of young people between the ages of 16 and 20. This group is largely "uncovered" by unemployment insurance. Under the philosophy being urged in this study, this group must be able to tap the resources of the National Economic Security Fund. Indeed, when this group meets its first unemployment experience, it should be channeled into free education and training programs. It is with this group that our national destiny rests. Frustration, anomie, and cynicism by this group are most difficult to undo. Adults who can look back on successful employment experiences can more easily look forward to coming back into the system. A young person whose initial experience in the employment market is tragic has nothing to look back on for psychological sustenance.

How Can We Profit From the Experiences in Europe?

Usually the point of view is that the United States is so significantly different from other countries in the world that everything we do with regard to basic institutions such as education and employment will have to be

significantly different from what is done elsewhere. This is certainly true in some respects but hardly true in every respect, even concerning such basic institutions as we have been looking at in this study. Quite obviously, because of the size of the United States and the many political subdivisions, any programs in the United States will be significantly greater and subject to greater funding complexities than those in other countries. On the other hand, there are problems which are so basic in nature to all industrialized countries that it is difficult to imagine that many of the lessons learned in Western Europe could not also be applied in the United States.

The Danish experience. First, let us look at the experience of the Danes. Beginning in the mid-nineteenth century, as the Danish society became both more democratic and more urbanized, the major thrust of its adult education program was that of acculturation so that more Danes could participate rationally and more effectively in the process of self-government as well as in the process of becoming an urbanized nation. In the philosophy of Grundtvig there was the concept that individuals who normally live a fairly independent life in the rural areas would become increasingly dependent on each other with the specialization and industrialization of the economy as well as the democratization of the society. Hence, a residential education program was developed so that different types of individuals could be brought together and share life experiences, even if for a limited period of time. Basic education courses were given as the foundation for technical or professional training.

To say that such a program would not be of great value in the United States, would be to lack a basic understanding of many of the problems confronting minority groups which have only recently migrated into our metropolitan and urban areas. Their first problem is that they are now living in close relationship with individuals with whom they have had little experience and with whom they have shared little in terms of life styles and value systems. Also, they are being thrust into situations where they are being called upon to share, to a degree they have never known before, in self-governance. A major objective of the Poverty Program in the United States has been to bring minority groups into a system of participatory democracy. Such individuals had never exercised the right of helping to determine the form of the society in which they had been living. Through this program they were called upon to share in the decisionmaking process as it affected their own lives economically and socially. Another problem results from the fact that many of the migrants who came from the rural areas of the South, Southeast, and Southwest were ill equipped to live and work in the physical urban environment.

Surely, these are exactly the sorts of problems with which the Danish folk high schools set out to deal in the mid-1800's. I suggest then, based on the Danish experience, that a similar adult education program be established in

each of the large metropolitan areas of the nation where problems of acculturation and skill acquisition lie at the heart of many of the distressing "revolts" of low-income blacks, Spanish-speaking Americans, and other minority groups against "the establishment." I also suggest that similar adult education programs be undertaken in those regions from which ill-trained, primarily rurally oriented individuals are fleeing into the cities. These programs may or may not be residential depending on the age groups of the individuals involved and the differing levels of social acculturation and skills.

A second lesson which can be gleaned from the Danish experience is that the overall abilities of educators are more important than credentialization based on a narrow formalized educational background. Many of the principals of the folk high schools do not possess formal certification. In the folk high schools the administrators, counselors, and teachers are well-rounded with regard to life experiences and skill backgrounds so that they are proficient in achieving the objectives of the high schools. In this country the U.S. Labor Department, in its experimental and demonstration program, has proved again and again that there are large numbers of individuals who, though lacking formal educational credentials, are extremely proficient in teaching special skills as well as in providing help for counselors who are dealing with minority groups. Much of what we have learned in the education programs under the Manpower Development and Training Act, as well as in the various Job Corps Centers under the Poverty Program, could well be applied to other programs in the utilization of individuals who lack formal credentials but who are, nonetheless, extremely capable administrators, teachers, or paraprofessional counselors.

The third factor of considerable interest to us is that in Denmark substantial governmental grants are given to the 69 folk high schools which are private, self-governing institutions. In Denmark, as well as in Germany and France, there is apparently sufficient concern with achieving the overall objectives of education so that private institutions, as well as public institutions, concerned with adult education are supported by the government. This is reminiscent of the support which was provided to private as well as public institutions in the United States during the period following World War II. Under the GI Bill public funds were made available to the individual student no matter which institution (private or public) he or she attended, provided that the institution was accredited. At that time students tended to select those institutions which seemed to offer them maximum potential for learning and job placement. It would seem well to resume this formerly successful practice in the field of adult education. NESF funds could be given on an individual as well as an institutional basis. The primary consideration is that the student be permitted to return to an educational system of his choice where he can develop his fullest potential.

Insights from France. In the case of France, one of the major lessons to be learned is that, although labor and management may seem to be far apart, a basis for mutual agreement can be found through individual self-interest. The wide gap which one usually assumes exists between labor and management in the United States is relatively narrow when compared to the historical gap which has existed between the trade union movement and the management groups in France. Notwithstanding that gap, because of common needs, those two groups in France were able to come together with government as the negotiator and facilitator in order to develop a continuing adult education and training program which would depart radically from previous education programs. I must say, however, that the new continuing education legislation, which was enacted during the summer of 1971, is much more complicated than its legislative counterpart in the Federal Republic of Germany. In the event that we in the United States do move in the direction of these types of legislation, the German model is probably more applicable to our needs than the French one.

The all important philosophical basis for the French legislation, however, must become the philosophical basis for any program of continuing adult education which is developed in the United States. Specifically, the French legislation starts out by stating that permanent training constitutes *a national obligation* and that it must be dispensed to adults and young people already engaged in the labor market or about to enter the labor market with a view to advancing their education and skill levels in terms of society as well as the work force.

A unique feature of the French legislation is that it permits, in fact encourages, all sorts of institutions to come together to develop the continuing education programs. For example, universities are encouraged to take the initiative in establishing programs in the area of permanent training and education along with other institutions such as the trade union movement. This same idea has been the heart of extension programs in our agricultural schools for years. The agricultural college education and training extension programs could now provide the model for a new university continuing education and training program.

Universities or state college systems, along with the very exciting and expanding community colleges, could become and should become the basis for a new type of continuing adult education. Continuing or permanent education, as well as training, could be on a residential as well as a nonresidential basis. There is an increasing need for institutions of higher education to provide training for adults who wish to move into the rapidly expanding areas of health helping professions and teacher helping professions (including counseling), as well as the increasing variety of service jobs which are in reality middle-management positions. In both France and Denmark a number of permanent education programs have been designed to prepare shop

foremen for middle-management positions. The outstanding example of this sort is the Centre Interentreprises de Formation et d'Études Supérieures et Industrielles, which Dr. Raymond Vatier was instrumental in developing. This Centre, which now has training programs located in Lyon, Arras, Mantes-Chantenay, Paris, and Toulouse, has been extremely effective in the education and training of individuals in industry for higher managerial positions. A further education program, which is somewhat reminiscent of the Danish folk high school, is the effort launched in the economically depressed area in Northeastern France. Specifically, the Centre Universitaire de Cooperation Economique et Sociale (CUCES) program generated by Professor Bertrand Schwartz has shown the way for the development of indigenous, participatory educational efforts designed to provide basic educational underpinnings for new technical skill acquisition. This program is somewhat reminiscent of the efforts under the Poverty Program in the United States to bring local individuals (mostly private), rather than representatives of governmental or other types of institutions in the community, into the development of local self-help education and training programs. A program similar to CUCES could be of tremendous value in our inner-city areas where new efforts are being made to provide for indigenous inputs to the development of adult education programs at the high school and grade school level. The most interesting feature of CUCES is its learning system which tailors courses to individual learning abilities by using basic attainment building blocks. The system which Professor Schwartz has developed permits an individual to move ahead far more rapidly than do most of our adult education programs. Local, or even regional schools, can be based on the model developed by CUCES, with funds initially going directly to such institutions in order to stimulate their growth. But eventually funds could "follow" students after the initial growth of these institutions. This procedure would ensure that the educational effort of such institutions would remain geared to the needs of the student. The local participatory educational centers that were developed under the CUCES program have the same general philosophy as the Danish folk high schools rather than becoming institutionalized dinosaurs which no longer serve the original purpose. As was indicated in the chapter on France, there is a great deal of emphasis on studies which permit the worker-student to obtain basic insights into the problems of the society as well as the family. Hence, the aim is to blend basic education, skill acquisition, and acculturation.

An attractive model from Germany. The Employment Promotion Act of 1969 in West Germany is, I believe, a good model for the development of our own legislative effort in the area of permanent and continuing education. The German unemployment insurance fund is sufficiently similar to our own so that it doesn't take any stretch of the imagination to envision a major continuing education program supported by funds available through our own unemployment insurance system. The basic German philosophy that the unem-

ployment insurance fund should be utilized as a means of *preventing unemployment* could very easily become the basis of the new concept which I am espousing for our own education and employment efforts in this country.

In addition to the general provisions concerning training and retraining, certain other aspects of the German program should be incorporated into any major effort we make in the area of continuing education. The provision of further education to instructors so that they can become more effective, the provision of funds for the resettlement of aging jobseekers, the provision of travel expenses necessary to obtain a job matching the individual's skills, and the funding for extraordinary costs of board and lodging over a short period of time which may be necessary for the individual to take a new job are all aspects of the German program which should be incorporated into our own effort.

The provision of special subsidies by the German government to employers hiring workers who need an initial period of adaptation on the job before they can achieve maximum efficiency is a constructive effort to deal with a specific group of handicapped employees who are unable to cope with a formal educational situation. Many individuals who have physical or psychological handicaps, or handicaps growing out of age, are nonetheless employable if they are given the opportunity to adjust to the demands of their jobs. Their employers should not have to absorb any economic loss resulting from their employment. Obviously, if any such workers are not able to adjust to their jobs in a reasonable length of time, they will have to be withdrawn from the work force.

Economic development. The continuing education programs in Denmark and Germany have a logical relationship not only to employment but also to economic development. Both the Germans and the Danes have as an important part of their permanent continuing education philosophy the training or retraining of workers in a specific geographical area where local firms or industries have been subject to increasing competitive pressures and as a result of such pressures have begun to decline in terms of their levels of output. They have provided retraining and training programs especially tailored to the needs of such depressed economic areas so that workers in those areas can fit into an overall economic development program. Though we here in the United States have talked of just such an effort under various regional and national economic development plans, the effort has never really succeeded because the efforts at training and retraining have never been meshed effectively with the economic development objectives of the area or the industries involved. We could, just as have the Danes and Germans, devise continuing education programs to serve the economic development objectives of our nation.

Toward a New Program in the United States

Over the next several years, if we in the United States are to deal more effectively with the problems of unemployment, inflation, low productivity, and "blue-collar blues" (worker dissatisfaction), we must move to a different philosophy of training and education. The model which has succeeded in Western Europe is based upon the effort "to stabilize and expand *employment* and to make it more productive," while the model which has failed in the United States seeks "to deal remedially with *unemployment*."[2]

The steps which should be taken as quickly as possible to redirect our efforts include the following:

1. A permanent education and training law should be enacted, which makes it a right for every worker over the age of 17 to pursue an education-training program. Such a program could be for as long as 24 months, on a full-time basis, with all educational costs and a personal income stipend provided. The stipend should approximate, on the average, three-fourths of the worker's immediately prior employment income; it should relate to the size of the family or number of dependents, as well as prior employment income, with a reasonable upper limit. For those with no prior work experience, a stipend should be provided to cover basic living needs. This new law should specify that additional funds are to be made available for special things necessary for successful education-training programs and placement; e.g., travel, short-period housing, special tools, etc.

2. The new act should federalize all state unemployment insurance funds and convert them into a National Economic Security Fund. The NESF would fund both the new education-training program and unemployment security benefits. The latter would be for those whose unemployment is probably short term—for those whose reemployment in the same skill, company, or industry is held to be likely within six months. Two years after enactment of the new law, the NESF should be supported by a 1.5 percent payroll tax, shared equally by the employer and employee on all wages up to $9,000. The objective would be that of producing sufficient income to fund training and stipend costs as well as unemployment security benefits. When one looks at the relevant data given (p. 72) for our present unemployment insurance system, it would appear that the 1.5 percent payroll tax on all wages up to $9,000 would more than meet the financial demands of the program envisioned.

Given the present (1971) distribution of income in the United States, a 1.5 percent tax on all wages and salaries of *all* income earners would yield a

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[2]E. Wight Bakke, *The Mission of Manpower Policy* (Kalamazoo, Mich.: The Institute, 1969), p. 38.

return of $7.5 billion. By 1975 this figure would be approximately $9 billion. Thus, a continuing education and training program costing $6-$7 billion for one percent of the labor force *would be possible without using any unemployment insurance reserves,* if the suggested program were to be placed in operation in 1973.

The unemployment insurance reserves could be set aside to deal with income subsidy needs for the short-term unemployed who do not desire or need retraining and will be reemployed shortly in the same firm or industry. As this reserve fund is drawn down, it can be replenished annually from general governmental revenues.

Year	*Unemployment insurance taxes paid into state reserves (millions)*	*Interest credited to state reserves (millions)*	*Employers' contributions as percent of total covered wages (percent)*	*Covered labor force as a percent of total civilian labor force (percent)*
1967	$2,678	$398	0.9	70
1968	2,552	460	0.8	70
1969	2,545	536	0.7	71
1970	2,508	610	0.7	68

Source: Handbook of Unemployment Insurance Financial Data (Washington: Bureau of Employment Security, U.S. Department of Labor, May 1964); Annual Supplements for each year after 1964.

3. The new act should, in addition to providing direct funding to students, provide for institutional grants to encourage the development, expansion, and availability of education-training courses and programs designed to meet the goals of the act. Basic education in reading, communications, and computation is to be the keystone in this effort. Every skill or training program must have a reading comprehension unit capable of bringing the student up to the necessary level of reading competency for skill training.

4. The act should stipulate that the student or trainee will receive NESF reimbursement for attending any accredited institution of his choice, and that the sole criterion for institutional grants is accreditation. Care should be exercised in making grants to ensure that redundant facilities, be they public or private, are minimal. All institutional grants should call for the submittal of program plans clearly establishing objectives and accountability standards. All funded institutions should have adequate counseling and placement staffs or plans which relate their education-training programs to existing counseling and placement resources. If the latter is the case, these interinstitutional arrangements should be evaluated annually to determine effectiveness. The use of private, for-profit educational and training institutions should be encouraged under this act. Any sudden increase in the numbers of people returning into educational and skill-training programs will call for the use of *all* of our

facilities. Up until now, our for-profit training institutions have been underutilized by federally funded programs.[3] Public purse strings have too often been limited to public school programs, many of which have been inadequate. The focus should be on how best to train or retrain workers for our nation's manpower needs; this will, of course, mean using for-profit institutions whenever their instruction and facilities are best suited to the program at hand.

5. NESF payments for counseling, testing, and placement should be made to all persons or agencies, private as well as public, providing such services. The present state employment services should also be reimbursed for counseling, testing, and placement activities which they are called upon to provide for education-training programs under this act.

6. NESF grants should be made for the establishment of special residential education-training programs. In this case, individual personal income stipends should be reduced to reflect the food and housing costs assumed by the residential facility. A major group to benefit would be the prison and ex-inmate population. Education and training centers could be established in detention or correctional institutions, funded under this program. After leaving an institution, the ex-inmates would be eligible for subsidized reentry (or for many of them first entry) into an educational and training program.

7. The implementation of this continuing education and training act and the utilization of NESF call for a type of administrative organization which does not exist at present in any of the executive agencies of the federal government. The organization would need a combination of backgrounds in adult education, manpower services, and economic development. For the first several years, this new program must be free of the shackles of prior agency commitments and personnel. In addition, because of its cross-agency responsibilities, it should have the direct support of the Executive Office of the President. Thus, for the first several years of its existence, I suggest that a special Bureau of Continuing Training be established in the Office of Management and Budget to bring this new program to life. Following an operational experience of several years, in which patterns of operation and precedents would be established, the function of this bureau could then be moved to a regular agency, or to a newly created agency.

This nation may be at a juncture in its economic history when it is ready to assume the responsibility for the form of continuing education which is suggested in this study. To do less will, I believe, cause us to continue to waste human resources which we need for our economic health and, perhaps more importantly in the long run, our social well-being. Existence alone is

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[3]A. Harvey Belitsky, *Private Vocational Schools and Their Students: Limited Objectives, Unlimited Opportunities* (Cambridge, Mass.: Schenkman Publishing Company, 1969).

never a sign of good health or a viable national spirit. When one looks at the state of our economy and society over the last decade, one is reminded of Richard Hofstadter's image of the United States in recent years: "The nation seems to slouch onward into its uncertain future like some huge inarticulate beast, too much attainted by wounds and ailments to be robust, but too strong and resourceful to succumb."[4]

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[4]"The Future of American Violence," *Harper's Magazine,* April 1970, p. 53.

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Appendix A

Extract from JOURNAL OFFICIEL DE LA RÉPUBLIQUE FRANCAISE of July 17, 1971, pages 7035-7046.

Law No. 71-575 of July 16, 1971, pertaining to the organizing of continuous professional training within the framework of continuing education.

PROCEEDINGS PREPARATORY TO THE PASSAGE OF LAW NO. 71-575

National Assembly:

Drafting of Law No. 1754

Report of M. Sallenave on behalf of the Commission on Cultural Affairs (No. 1781)

Discussion on June 7-8, 1971

Adoption on June 8, 1971.

Senate:

Drafting of Law adopted by the National Assembly, No. 299 (1970-1971)

Report of M. Chauvin on behalf of the Commission on Cultural Affairs, No. 323 (1970-1971)

Opinion of the Finance Commission, No. 321 (1970-1971)

Discussion on June 17-18, 1971

Adoption, June 18, 1971.

National Assembly:

Presentation of the Law as modified by the Senate (No. 1862)

Report of M. Sallenave on behalf of the Commission on Cultural Affairs (No. 1876)

Discussion and adoption on June 23, 1971.

Senate:

Presentation of the Law as modified by the National Assembly, No. 360 (1970-1971)

Report of M. Chauvin, on behalf of the Commission on Cultural Affairs, No. 378 (1970-1971)

Discussion and adoption on June 28, 1971.

National Assembly:

Report of M. Sallenave on behalf of the Joint Commission (No. 1942)

Discussion and adoption on June 30, 1971.

Senate:

Report of M. Chauvin on behalf of the Joint Commission, No. 389 (1970-1971)

Discussion and adoption on June 30, 1971.

The National Assembly and the Senate have adopted and

The President of the Republic has enacted the Law whose contents are given below:

Article 1. Ongoing occupational training constitutes a national obligation. It relates to an initial training period and successive training periods for adults and for young people already engaged in a livelihood or who are about to be so engaged. These training periods constitute ongoing occupational training.

Ongoing occupational training is one feature of the subject of continuing education. Its object is to permit an adaptation of workers to changes in technique and working conditions, to promote their social advancement by giving them access to other levels of society and occupational qualification and to permit them to make their contribution to cultural, economic and social development.

The state, local communities, public institutions, professional organizations, unions and private companies, as well as corporations have all concurred in their statements on this matter.

Section I. Occupational Training Institutions

Article 2. The occupational training and social advancement has been the object of a coordinated and concerted policy, especially in organizations representing employers and salaried workers, as well as independent workers.

To this end the Prime Minister has created an Interministerial Committee, of which the Minister of National Education is the Vice President, and a permanent group of high officials, the chairman of which is appointed by the Prime Minister. These bodies are assisted in elaborating and applying policies with respect to occupational training, social advancement and employment by a national council on occupational training, social advancement and employment, which brings together representatives of public authorities, of professional organizations, and of interested trade unions.

In line with the same principles, regional and departmental committees

have been instituted in the areas of occupational training, social advancement and employment.

The organizational methods and the functioning of the above-mentioned committees and councils are established by a decree.

Article 3. The Interministerial Committee on occupational training and social advancement, guided by the requirements of social advancement and of cultural, economic and social development, determines priorities of policy for the public authorities, with a view to the following:

To promote agencies for occupational training and social advancement.

To use financial or technical assistance to sustain the various enterprises begun in this area.

These various agencies and enterprises can also have a bearing both on the training of trainees and that of the educators themselves.

Section II. Standards of Occupational Training

Article 4. The agencies for occupational training and social advancement mentioned in Article 1 above can make standards their objective. These standards are two-sided or many-sided. In particular, these define the following:

The nature, objective, duration, and enrollment of the proposed courses of instruction.

The pedagogical resources and the techniques by which they are applied.

Stipulations concerning the assuming of responsibility for expenses in the pedagogical training of educators, and their remuneration.

As regards salaries and other assistance, such as the situation merits in each case, to the latter as they pursue their proposed courses of study, especially leaves of absence, special adjustments or reductions in the work schedule, of which they shall be the beneficiaries as a result of applying legislative, regulatory or contractual provisions.

Methods of testing achievements and definition of what constitutes certification of the training imparted.

The distribution of financial load with respect to the conducting of courses and remuneration of trainees and, where required, the constructing and equipping of training centers.

Methods of amicably resolving problems that may arise in connection with fulfilling a given standard.

Article 5. Corporations, groups of corporations, associations, institutions and private companies, professional organizations, labor unions or fraternal

organizations, local communities, public institutions, especially chambers of commerce and other local associations of businesses, trades, and agriculture, as well as institutions dependent on these, shall serve as agencies for the meeting of these standards, both as applicants for training and as providers of technical or financial assistance in carrying out the programs, or as conductors of the training program.

Article 6. Institutions of public instruction, the French Office for Radio and Television, and community centers for the occupational training of adults subsidized by the Ministry of Labor, of employment, and of population shall act as agents within the framework of standards set up in accordance with Article 4 above:

a) With one of the organizations applying for training as envisioned in Article 5;

b) With the state when the agencies are organized at its initiative, so as to contribute not only to their particular objective of continuing education but also to the development of agencies for continuing occupational training such as those for which the standards provide, by means of their personnel and material resources.

Section III. Leave of Absence for Training

Article 7.

I. Throughout their occupational life, salaried workers not belonging to the categories mentioned in Section VII of the present law and desiring courses of training approved by the state under the terms of the present article shall have the right, upon filing a request with their employer, to a leave of absence.

The only persons who are not entitled to receive pay during this leave of absence are those workers who have already received certification for a prolonged period of training or a professional diploma within the past three years, as well as those whose seniority in the company is less than two years.

II. In institutions with 100 or more salaried workers, when several workers fulfilling the requirements stipulated in paragraph I of the present article apply for a leave of absence for training, compliance with certain requests can be deferred so that the percentage of workers absent at any one time from the institution shall not exceed 2% of the total number of workers in said institution.

III. In institutions employing less than 100 salaried workers, compliance with such requests can be deferred if the number of hours of absence requested exceeds 2% of the total number of hours worked per year.

Nevertheless, the number of hours of absence to which the salaried workers of this institution are entitled can at their request be accumulated from one year to another, as long as the accumulation does not exceed four years.

IV. This leave of absence corresponds to the duration of the course of training, but shall not exceed one year if the training involves a full-time continuing program of training, or 1,200 hours if the instruction consists of a training cycle involving a discontinuous period of training or part-time instruction.

However, this leave of absence can exceed one year or 1,200 hours if it has to do with a course in "occupational advancement" in the sense defined by Article 10 below and is on the special listing given in Article 24 of the present law.

V. Payment for the requested leave of absence shall be legally required, except in cases where the employer is convinced, after consultation with the board or, where no such board exists, with representatives of the union, that this absence could have detrimental effects on production and the conduct of the business. If disputes arise, the factory inspector responsible for the area in which the business is located can be informed by one of the parties involved and can be called in as an arbiter.

VI. The duration of this leave of absence is not to be counted as part of the employee's annual paid vacation. This leave of absence is to be considered comparable to working time when determining the annual paid vacation to which the employee is entitled.

The same analogy applies to the rights of the salaried worker as these belate [sic] to his seniority in the company.

VII. The workers undergoing this leave of absence can be remunerated by their employers by applying the terms of the contract. The state can remunerate or share in the remuneration, under conditions provided for in Section VI of the present law.

VIII. The approval provided for under paragraph I of the present Article shall be granted by a decision of the Prime Minister after consultation with the permanent group provided for in Article 2, taking into account the importance of the training course for ongoing occupational training.

IX. For employees of businesses that have not entered into a binding agreement in this area between the most representative professional organizations and unions at the national level, a decree of the Council of State shall define the following in particular:

1. The rules according to which determinations are to be made for the

establishment (where the leave of absence provisions of Article 8 do not apply) [punctuation supplied] of the maximum percentage of workers qualified at any given time to an authorized leave of absence, or the maximum percentage of working hours that may be affected over a period of a year or several years, in fulfillment of their right to such a leave of absence.

2. The conditions and deadlines for filing a request with the employer, as a function of the length of the training period as well as the deadline for a response to the application by the employer.

3. Conditions under which the employer can, as the case requires, defer the leave of absence due to the necessities imposed by the nature of his business or his use of the services performed by the employee.

4. The rules by which determination is made of the schedule of leaves of absence on the part of a worker, such as may be claimed within the framework of the present law, irrespective of those leaves of absence to which he would have been previously entitled under the terms of Article 8.

X. The salaried employees provided for by the first paragraph of the present Article can, within the framework of contractual agreements, obtain a leave of absence for the purpose of exercising the function of a trainer, either within the business itself or in certain institutions and centers provided for under Article 6, as well as in those which dispense training in accordance with Article 5.

Salaried workers on a leave of absence for the purpose of serving as trainers need not allow for any determination of the number of those qualified for a leave of absence for training, such as would be determined by applying the rules provided for under points II and III above.

Article 8.

I. Salaried employees not possessing a professional certificate or not entitled to an apprenticeship contract have the right, during the first two years of their employment by the company and until they have reached the age of 20, to take a leave of absence that will permit them to pursue training courses approved by the state under the terms of the present Article. The employer may not withhold payment for such a leave of absence.

II. The duration of this leave of absence, which may not exceed 100 hours per year, cannot be figured as part of the worker's paid vacation for that year. This leave of absence shall be counted as part of the number of working days used in calculating the amount of paid vacation to which the interested party is entitled.

The same inclusion shall apply to calculations of the employee's seniority in the company.

III. In cases where disputes arise with respect to the application of the present Article, the plant inspector having competence for the business in question may be contacted by one of the parties involved and may be called in as an arbiter.

IV. The approval provided for in paragraph I of the present Article is granted by a decision of Prime Minister, after consultation with the permanent group provided for in Article 2, taking into consideration the importance of the training for the employee's ongoing occupational growth.

V. A decree in the Council of State shall determine the measures by which the present Article is to be applied; in particular, they shall determine the following:

1. The minimum period of employment by the company which shall entitle the claimant to a leave of absence.

2. The conditions and deadlines for presenting an application to the employer, as well as the deadlines for a response on the part of the latter.

3. The conditions under which the employer can, as the situation requires, defer the leave of absence on account of necessities peculiar to his business or his use of the employee's services.

Section IV. Assistance From the State

Article 9. The state shall cooperate in financing agencies for occupational training and social advancement, in line with priorities and criteria for mediation, as defined by the Interministerial Committee on occupational training and social advancement, after discussion with the professional organizations and unions within the context of instances provided for this purpose.

The financial contribution granted by the state can pertain to the cost of conducting the training courses as well as, when circumstances require, the cost of constructing or equipping the centers of training.

For this purpose the Prime Minister or the appropriate ministers of the Cabinet, when applying Article 4 of the present law, shall draw up standards, the details of which are to be defined by decree.

When these standards apply to training centers administered by one or more businesses, they shall be subjected, before their final drafting, to discussion by the board or boards of the interested company or companies, by applying the provisions of the third paragraph Article 2 of the ordinance of February 22, 1945, as amended by Article 2 of Law No. 66-427 of June 18, 1966.

The state also shares in the cost of remunerating trainers for occupational

instruction in accordance with the rules determined in accordance with [sic] Section VI of the present law.

Article 10. Financial assistance from the state can be granted for any of the types of training agencies listed below:

1. Courses of training categorized as "transitional" and "preventive", open to persons less than 18 years of age. The purpose of the first category is to prepare salaried workers whose employment has been interrupted due to job requirements of a differing nature or to allow owners of farms and unsalaried members of their families or members of unsalaried, nonagricultural occupations to enter new lines of occupational activity; the second category of courses is designed to reduce the risk of disqualification due to the development of new techniques and organizational structures, to workers threatened with dismissal, by preparing them for a change of activity, either within the framework of the same company or elsewhere.

2. Training courses categorized as "adaptational". The purpose of these courses is to give easier access to one's present job or to a new job for workers presently employed and paid by their company, especially young people with a professional certification.

3. Courses categorized as "for occupational advancement", open both to salaried and unsalaried employees, for the sake of helping them to increase their level of qualifications.

4. Courses categorized as "for maintaining or improving knowledge", open to salaried employees under a work contract or to unsalaried employees, for the sake of maintaining or improving their present qualifications and cultural level.

5. Courses for preliminary training, training, preparation for a professional livelihood or specialization, open to young people from 16 to 18 years of age who have no work contract.

Article 11. Funds made available by the state for financing agencies for ongoing occupational training are assigned to the service budget of the Prime Minister or to the budget of the appropriate Cabinet members.

A statement summarizing the funds needed for the coming year and restating the job description of those who received grants during the previous year and the year now in progress will be presented each year as supporting evidence for a Bill of Appropriation. This statement will also describe the use of the employer's share of contributions as this applies to Section V of the present law.

Article 12. Funds corresponding to the responsibility assumed by the state, as this applies to paragraph[s] 2 and 3 of Article 9 above, are included

in the Prime Minister's budget under the heading of "Funds for Occupational Training and Social Advancement".

These funds may also be used to underwrite the financing of studies or controlled experiments.

Funds relating to payments and allowances furnished directly by the state to occupational training instructors or reimbursed by the state as an application of the present law, belong to the budget of the Prime Minister.

Section V. The Share Paid by Employers for the Financing of Ongoing Occupational Training

Article 13. Every employer with a minimum of ten salaried workers, with the exception of the state itself, local communities, and their public institutions of an administrative nature, must assist in the development of ongoing occupational training by contributing each year to the financing of training agencies of the type defined in Article 10 of the present law.

Article 14. The employers must set aside for the financing of training agencies provided for in Article 13 an amount which in 1972 shall represent at least 0.80% total salaries paid during the current year, as defined by Article 231-I of the general revenue code. This rate will be increased by 2% by 1976.

This obligation may be met as follows:

1. By financing training agencies patronized by their own personnel.

These agencies are to be organized either within the company or by the application of standards drawn up in conformity to the provisions of Section II of the present law.

Expenses incurred in this connection by the company are retained in their entirety, without deducting any assistance that may be received from the state under the terms of the present law.

When the training agencies are organized within the company, these expenses can be allocated as program operating expenses, payment of instructors, and equipment and materials, whenever such materials are used exclusively for the training program.

When the training agencies are organized outside the company, under contracts of one year's duration or longer, the expenses charged on a sharing basis, as instituted by this section of the present law, shall correspond in part to fees paid by the company and in part to training expenses incurred by the training organization in its performance of said contracts, which shall include those relating to equipment and materials.

2. By contributing to compensation-training funds, as provided for by Article 32 of the present law.

3. By making payments, up to a limit of 10% of total shareholdings for the current year, to organizations which are either approved at the national level in proportion to their importance as agencies for the ongoing occupational training of workers or agencies whose importance at the regional level is recognized by the prefect of that region upon recommendation by the regional commission on occupational training, social advancement and competent employment, in conformity with the objectives defined in the first paragraph of Article 1 of the present law.

Article 15. Employers with at least 50 salaried employees cannot be regarded as having conformed to the provisions of this section of the present law unless, having satisfied the obligation provided for in Article 14, they can demonstrate that the Board of Directors of the company has considered the particular problems faced by the company in relation to ongoing occupational training during the year in which they seek to be excused from the above obligation and before they have made overall decisions with respect to the application of the present law.

Employers are excused from presenting such proof upon producing a statement of insolvency, as provided for under Article 13-1 of the Ordinance of February 22, 1945, amended by Law No. 66-427 of June 18, 1966.

Article 16.

I. When the expenses demonstrated by the employer in applying Article 14 are less than the share of funding determined by said Article, the employer is responsible for making a payment to the treasurer equal to the difference that has been ascertained.

In cases where the employer does not give proof in fulfillment of the terms of Article 15, the payment for which he is responsible under the terms of the preceding paragraph shall be raised to 50%. This increase cannot be less than half of the share due for the year under consideration.

The payment becomes due and payable at the same time that the declaration provided for under Article 19 is filed.

This payment is recorded and collected in accordance with those methods and under the securities, guarantees and sanctions that apply to taxes on business profits.

II. Claims are presented, prepared and judged in the same manner as that of taxes levied on business profits. Decisions are communicated via the department in charge of examining the validity of expenses incurred under the terms of Article 14, when the decision of the court pertains to the amount of expense that the employer agrees to share.

Article 17. Employers who over the course of a year incur expenses amounting to more than that provided for under the terms of Article 14 of the present law may report the excess amount over the subsequent three-year period.

Article 18. Payments made by employers under the heading of a "para-fiscal" tax allocated to occupational training are taken into account by calculating the "appointed share" in accordance with Article 13 above.

Article 19.

I. Employers are required to remit to the competent revenue office a statement in duplicate which indicates among other things the amount of the appointed share for which they are responsible and the effectively current expenses in accordance with Article 14.

The declaration of employers mentioned in Article 15 must be accompanied either by the minutes of deliberations by the board or a report of insolvency.

II. The statement provided for in paragraph I above must be presented at the latest by April 5 of the year following that in which the expenses defined under Article 14 have been incurred.

If the business becomes involved in a suspension of payments or bankruptcy suit, the statement pertaining to the current year and, where required, that pertaining [to] the preceding year are filed within ten days of the suspension of payments or bankruptcy action. In the event of the decease of the employer, these statements are to be filed within six months following the date of decease.

In case of court settlement or complete liquidation of goods, the statement is to be submitted within ten days of the date of judgment.

Article 20. The agents commissioned by the [prefect] can require the employer to show proof that he has satisfied the obligations imposed by Articles 14 and 15 of the present law and may make the necessary investigations.

These agents are subject to the rules of professional secrecy and the limitations determined by the general revenue code.

Article 21. The provisions of this section of the present law shall take effect as of January 1, 1972.

For each of the years 1973, 1974 and 1975 the amount of shared revenue provided for under Article 14 of the present law will be determined by financial law, in accordance with the present need for ongoing occupational training.

Article 22. Certain decrees by the Council of State shall determine, as

needed, the conditions under which the present section shall be applied, particularly the following:

Definition of expenses envisioned in paragraph 1 of Article 14 above.

Conditions of the approval provided for under paragraph 3 of Article 14.

Conditions under which the provisions of Article 15 above shall be applied to companies employing less than 50 salaried workers, in which the establishment of a board is not obligatory.

The methods of setting up the program and the content of the statement provided for under Article 19 as well as the receipt of revenues by those competent to receive this statement.

Section VI. Financial Assistance Granted to Occupational Training Instructors

Article 23. The state, employers, workers, and organizations who bear the responsibility of providing compensation to unemployed workers shall assist, in accordance with methods suited to each of the categories of training defined in Article 10 above, in financing the payment of occupational training instructors.

Under certain conditions defined by decree of the Council of State, the instructor is entitled to a loan granted by the state or by the organizations that have been approved for receiving assistance funds from the state.

This loan may be allowed to accumulate along side the indemnities that may be collected in accordance with the provisions of this section of the present law.

Article 24. In order to be entitled to assistance from the state, workers must take training courses that correspond to the categories defined in Article 10 above.

These courses must meet the following conditions:

They must be in accord with standards set up by the state and must provide for revenue sharing as a means of remunerating the instructors.

They must be approved.

They must also be listed in one of the following special categories:

Courses for occupational advancement, leading directly to the compensation provided for in Articles 30 and 31 below.

— Courses for the maintenance and improvement of knowledge, leading directly to a compensation calculated under the conditions specified in Article 33 below.

Transitional courses in the sense of paragraph 1, Article 10 above, organized in community occupational training centers for adults within the jurisdiction of the Ministry of Labor, employment and population, are approved by that office.

The assistance of the state in remunerating instructors is determined for each category of courses, under the conditions defined in the above articles.

Article 25.

I. Workers who take a transitional course, as defined in paragraph 1 of Article 10 above, receive, when this is a full-time program, a remuneration calculated on the basis of the length of their legal work week, this being the number of hours of instruction given by the training center, and by reference to an established scale:

1. For salaried workers, in dependence on the salary of their last position.

2. For unsalaried agricultural workers, in dependence [on] usual minimum income.

3. For unsalaried nonagricultural workers, in dependence on income tax withheld, as a basis for calculating health insurance contributions according to the schedule set up by Law No. 66-509 of July 12, 1966.

This remuneration may in no case be less than 90% of the minimum income normally received. This may also constitute a ceiling.

Workers who receive training on a half-time basis are to receive a proportional remuneration calculated under conditions set forth above and on the basis of a period of time fixed by decree.

II. Similarly, workers who take a transitional course of training in accordance with paragraph I of the present Article:

1. Young people who satisfy conditions for the receipt of public unemployment assistance.

2. Young people whose admission to the course occurs less than one year after completing service with the national government.

3. Mothers of families who wish to take a job that requires a certain level of qualification.

4. Unmarried women who have accepted or are accepting the responsibility, legally or de facto, for a third person in their family circle.

Instructors covered by the terms of the present Article are remunerated at a rate proportional to their usual minimum income.

Women caring for three children or, when they are heads of families,

have the responsibility for at least one child are entitled to an additional remuneration.

Article 26. The state shall reimburse companies for each worker who takes a preventive course, as defined in paragraph 1 of Article 10 above, and will continue to remunerate such companies, according to the conditions laid down in their work contract, by an amount calculated in terms of salary paid.

Article 27. The scale of remuneration provided for under point one of paragraph I of Article 25 above includes increased rates granted to salaried workers who were dismissed after less than six months, for other than disciplinary reasons, or who are taking a transitional course of instruction organized in line with the standards set up in the first Article of Law No. 63-1240 of December 18, 1963, relating to national employment funds.

Article 28. The amount of remunerative payments provided for under Articles 25-27 above shall include a contribution from the state and, where required, that of coalition organizations set up with the common consent of professional organizations and unions.

In the latter case, a standard approved both by the state and said organizations shall determine the manner in which they share in financing the compensations paid to instructors.

Article 29. Workers who take adaptational courses as defined in paragraph 2 of Article 10 above, are remunerated by their employer under the conditions provided for by their work contract. The state may accept part of the responsibility for this remuneration.

Article 30. Workers who follow a course for professional advancement as listed in the special category of the third paragraph of Article 24 above, when they are not covered by a work contract or when their work contract does not involve remuneration, they shall collect a monthly compensation.

The amount of this compensation, which shall vary in accordance with the level of training received and which cannot be less than the usual minimum salary, is determined each year, taking into account the growth in the ceiling of social security contributions.

Nevertheless, for certain periods of training lasting less than one year the compensation may be calculated under conditions prescribed by Article 25 above.

Receipt of the compensation provided for in the present Article shall not be an obstacle to obtaining loans, as established by Article 23 of the present law.

Article 31. The state shall reimburse companies for each salaried worker who follows a course for occupational advancement included in the special list of line three, Article 24 above, and the remuneration shall continue, for

an amount equal to the compensation provided for in the preceding Article, within the limits of the salary paid.

The salaried worker shall receive from the state, when his remuneration is less than the compensation provided for above, a supplementary compensation, the amount of which is equal to the difference between the compensation granted to instructors not covered by a work contract and the amount of his actual remuneration.

Article 32. When workers entitled by virtue of legislative, regulatory or contractual provisions to a leave of absence to pursue training courses for maintaining or improving knowledge, as defined by point 4 of Article 10 above, shall receive, by reason of an obligation contracted by the employer, either a substitutional remuneration paid by an insurance-training fund or, in the absence of such a fund, the remuneration provided for by their work contract, the state may take responsibility for a portion of their remuneration, under conditions determined by paragraphs I and II below.

I. The insurance-training fund is fed by contributions which may be paid by the employers and salaried workers in accordance with terms stipulated by the actions which created the fund. These are to be used exclusively for the financing of the operating expenses of training courses and, during the instructional periods, to cover the salary as well as the contributions incumbent upon employers by virtue of their social obligations and the tax on salaries, when these continue to apply by virtue of paragraph II of Article I of Law No. 68-1043 of November 29, 1968, relating to various provisions in the economic and financial realm.

On condition that the insurance-training fund is distinct from that of the enterprise and that it does not reserve the ownership and disposition of money paid into it, the amount of contributions for which employers are responsible shall not be subject to social security contributions or, where applicable, to the salary tax. Under the same conditions, they are deductible from income subject to income tax or corporation tax on the part of the employer. Contributions made by the workers are deductible from the taxable income of the interested parties.

II. In cases where, due to the absence of an insurance-training fund, workers are entitled to a continuance of the remuneration provided for by their work contract, the state may assist in this remuneration if the courses pursued are included in a list established jointly by the employers, organizations and salaried workers unions.

Article 33. Salaried workers entitled to a leave of absence without remuneration for the purpose of taking courses for the maintenance or improvement of knowledge, included in the special list provided for in line 3 of Article 24

above, may receive an hourly compensation, calculated on the basis of their usual minimum salary.

Article 34. When members of unsalaried occupations follow courses of instruction for the maintenance or improvement of knowledge, as defined in paragraph 4 of Article 10 above, the state may assume responsibility for a part of their remuneration, on condition that a fund for the same purpose as that provided for in Article 32 has been set up by and for the interested parties.

Article 35. Young people 16-18 years of age who have not entered an apprenticeship contract and have not fulfilled the conditions that would entitle them to public assistance for unemployment, shall be entitled, when taking courses involving preliminary training, job training, preparation for professional life, or specialization, as defined by paragraph 5 of Article 10 above, to compensations and social benefits equivalent to allowances and benefits allotted to college students taking technical courses.

Nevertheless, until a date to be set by decree, compensations exceeding those provided for in the preceding paragraphs may be provided only on a temporary basis. Their rate is to be fixed once a year, taking account of the growth in maximum contributions to social security.

The interested parties are covered by health insurance, so that they shall have the same type of rights as their parents with respect to social security. They shall apply directly to the family allowance service.

Article 36. Trainees possessing a work contract shall remain under the social security system, from which their salaried activity shall be remunerated.

Trainees who are not under a work contract and lack the qualifications for such a contract shall, taking account of the nature of activities for which the training course will prepare them, be affiliated either with the social security system or with the salaried agricultural workers social insurance program, or the social security system for unsalaried agricultural occupations, or with the social security system for unsalaried nonagricultural occupations, or the special social security system for French sailors.

For trainees belonging to the general social security system, the state shall share the social security contributions for which employers are responsible, in the same proportion as for the remunerations. When the trainees are not under a work contract, the social security contributions shall be made in a lump sum, the amount being fixed by decree.

For trainees who do not belong to the general system, decrees shall determine the conditions under which the state shall assume total or partial responsibility for social security contributions.

Article 37. Paragraph 2 of Article L. 416, Section I, Book IV of the social

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security code, relating to occupational accidents and illnesses, applies to all trainees included in the province of this section of the present law.

Article 38. Transportation expenses incurred by the workers in their attendance of the training sessions, which are the subject of this section of the present law, as well as for the return trip and for relocation, depending [on] the requirements of said courses, shall be subject to a total or partial reimbursement.

Article 39. All of the court actions that occur in connection with liquidation, the payment and reimbursement of remunerations and compensations provided for by this section of the present law, as well as payment and the assumption of responsibility for social security and occupational accident contributions, belong to the competence of courts at the judiciary level.

Article 40.

I. Decrees issued by the Council of State shall determine, as needed, the procedures by which this section of the present law shall be applied, and in particular:

The conditions for approval, as provided for in paragraph two of Article 24 above.

The conditions for allocation and procedures for payment of remunerations or compensations, as provided for in Articles 25-28, 30 and 35 above.

The conditions under which the state shall assume partial responsibility for remunerations as provided for in Articles 29, 31, 32, 33 and 34 above.

The conditions under which the state shall assume responsibility for social security contributions pertaining to the remuneration of trainees, as provided for by Article 36 above.

The conditions for reimbursement for travel expenses, mentioned in Article 38 above.

II. The following shall be determined by decree:

The amount or rate of remuneration or compensation as provided for in Articles 25-28, 30 and 35, already cited.

The portion of remunerations to be borne by the state in fulfillment of Article 29 and 32-34, already cited.

III. Decisions of the Prime Minister, taken after counsel with the prominent group of high functionaries set up under Article 2 of the present law, shall determine the following:

The approved list provided for in paragraph 2 of Article 24 above.

List of occupational advancement courses and courses for the maintenance

and improvement of knowledge, provided for in paragraph 3 of Article 24 above.

The list of short-term training periods, of less than one year duration, paragraph 3 of Article 30 above.

Section VII. Provisions Relating to Agencies Representing the State and Local Communities

Article 41. The state shall institute on behalf of its agents a coordinated policy for occupational training and social advancement, similar in scope and means employed to that envisioned under Article 2 of the present law. This policy shall take into account the specific nature of the public office involved.

After consultation with the highest council of the public office, a decree in the Council of State shall determine the conditions under which the appropriate training and advanced training agencies within the province of the national agents are to be defined, encouraged, and coordinated.

Article 42. The state officials may, at the instigation of the administration, participate either as trainees or as educators in the programs or courses for ongoing occupational training; they may also be authorized to participate at their request in such programs or courses, either as trainees or as educators.

After consultation with the upper council of the public office involved, decrees by the Council of State shall determine the conditions under which the present Article shall be applied, especially with respect to the conditions for admission to these programs or courses, the position of interested officials, and, where required, their remuneration for such periods of study or teaching.

Article 43. Decrees by the Council of State shall determine the particular procedures for the ongoing occupational training of civil servants not connected with the national government. These shall be set up after consultation with the upper council of the public office involved.

Article 44. Regional administrative institutions created by decree shall contribute funds to ensure the recruitment and training of certain groups belonging to category A, to be designated by decree of the Council of State. These may also lend their assistance to the ongoing occupational training of officials and agents of the state.

The number of positions reserved each year in each of the groups envisioned in paragraph 1 above for students of the institution shall be determined by decree.

Admission to regional administrative institutes shall be granted on the basis of two competitive examinations.

The first examination shall be reserved for candidates holding diplomas

from institutions of higher learning or recognized equivalents, determined by decree; the second examination shall be reserved, according to conditions determined by decree, to certain candidates employed in civil or military service for a minimum term.

The proportion of positions offered under the terms of each of the examinations is to be determined by decree.

These institutions may lend their assistance to the ongoing occupational training of local community officials.

Article 45. Decrees of the Council of State shall determine the conditions under which local community officials and agents of local public institutions may be entitled to the provisions of this section of the present law. Labor organizations shall be consulted, as well as competent organizations of a coalitional nature.

Section VIII. Miscellaneous Provisions

Article 46. In order to improve the performance of agricultural occupations, the state shall contribute, in alliance with general vocational organizations, under conditions determined by Section IV of the present law, to the financing of organized courses of instruction, for the purpose of ensuring the training, the maintenance and improvement of skills, or the advancement of farmers, salaried employees of farm enterprises, agricultural [assistants], and workers in para-agricultural occupations, in centers for occupational training for the social advancement of agricultural workers, and in promotional institutions.

Independently of the sanctions provided under Article 4 for various occupational training agencies, certain of the latter may be applied to the preparation for certification in schools of higher learning and agricultural technical schools.

Furthermore, in conformity to the provisions of Articles 32 and 34 above, the state may share financially in the insurance-training fund created for professionals in this area.

The conditions under which the teaching institutions and public and private organs for occupational advancement and conversion will be invoked so as to facilitate the acquirement of nonagricultural occupational qualifications for rural young people and for farmers and salaried agricultural workers, these being the subject of measures coordinated among the various ministerial departments involved.

Article 47. In order to facilitate admission to the offices of business heads in the area of occupational specialties and to assure the advanced training and professional qualifications of business heads in this area and of their salaried employees, the state shall share, under conditions determined by Section IV above, in the financing of courses of instruction designed for this purpose.

The state may also share in the financing of the insurance-training fund provided for under Articles 32 and 34 above, created for the professional area of work.

Chambers of the skilled trades are authorized to allocate additional funds by adding to the tax base, in order to provide the additional money.

Article 48. The state shall provide financial assistance in the training of workers as provided for under Articles 46 and 47, who are chosen to discharge responsibilities to labor or professional organizations.

This training may be provided by centers created by the professional organizations or labor unions, or organizations recognized by these. These centers shall be aquired [sic] to have the approval of the cabinet ministries involved. Government aid is granted within the framework of standards set up in compliance with Article 4 of the present law.

The necessary credit entries are to be added to the budget of the ministries involved.

Article 49. A national foundation for instruction in business administration shall [have] for its objective the development of skills in administrative methods and the managing of businesses, and of promoting the training of officials occupying positions of responsibility.

Article 50. The ongoing occupational training policy shall share in equipping training agencies organized in compliance with Article 15 of Law No. 70-596 of July 9, 1970, relating to national service.

Article 51. Determinations shall be made by decree, as needed, of methods for applying the present law to salaried employees engaged in activities which by their nature to a scattering [sic] or permanent mobility of personnel, despite their continuous occupation by a single employer.

Article 52. A decree of the Council of State shall provide Sections III and V of the present law with those adaptations required to make them applicable in overseas provinces, which shall take effect on the same day as in continental France.

Article 53. All legislative provisions contrary to the provisions of the present law are hereby abrogated, especially Article 4 and those following of Law No. 63-1240 of December 18, 1963, relating to the national employment fund, as well as Law No. 59-960 of July 31, 1959, relating to various provisions in the area of social advancement, Law No. 66-892 of December 3, 1966, on professional orientation and training programs, and Law No. 68-1249 of December 31, 1968, relating to the remuneration of trainees receiving occupational training.

Article 54. For a transitional period preceding the publication of measures

for the implementation of the present law, the regulatory material based on laws abrogated by the preceding Article shall remain in force.

The present law will be enacted as a national law.

Done at Paris, July 16, 1971.

GEORGES POMPIDOU

For the President of the Republic:
Prime Minister:
JACQUES CHABAN-DELMAS.

Minister of State
in charge of overseas provinces and territories:
PIERRE MESSMER.

Minister of Economy and Finance:
VALERY GISCARD D'ESTAING.

Minister of National Education:
OLIVIER GUICHARD.

Minister of Industrial and Scientific Development:
FRANCOIS ORTOLI.

Minister of Agriculture:
MICHEL COINTAT.

Minister of Labor, Employment and Population:
JOSEPH FONTANET.

Appendix B

International Labour Office

Legislative Series 1969—Ger.F.R. 1

FEDERAL REPUBLIC OF GERMANY 1

Employment Promotion Act. Dated 25 June 1969. (*Bundesgesetzblatt*, Part I, 28 June 1969, No. 51, p. 582.)

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November-December 1969

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Division I. Purposes

1. The measures provided for in this Act shall be carried out within the framework of the social and economic policy of the Federal Government in such a way that a high level of employment is achieved and maintained, the employment structure constantly improved and the growth of the economy thereby promoted.

2. The measures provided for in this Act shall contribute, *inter alia,* towards—

1. preventing the occurrence or continuance of unemployment or underemployment, on the one hand, and labour shortages, on the other;
2. safeguarding and improving the occupational mobility of gainfully employed persons;
3. preventing, off-setting or eliminating the negative effects that technical developments or structural changes in the economy may have on gainfully employed persons;
4. promoting employment opportunities for physically, mentally or psychologically handicapped persons;
5. providing employment opportunities for women who are difficult to place in the normal conditions of the employment market because they are married or for other reasons are or have been bound by domestic obligations;
6. providing employment opportunities for ageing and other gainfully employed persons who are difficult to place in the normal conditions of the employment market;
7. improving the employment structure in the various areas and economic sectors.

3. (1) The purposes provided for in this Act shall be pursued within the framework of the social and economic policy of the Federal Government by the Federal Employment Institution (hereinafter referred to as "the Federal Institution").

(2) The Federal Institution shall be responsible for—

1. vocational guidance;
2. placement;
3. the promotion of vocational training, in so far as duties in this field have been entrusted to it by this Act;
4. the industrial and vocational rehabilitation of handicapped persons, in so far as duties in this field have been entrusted to it by this Act;

5. the grant of benefits for the maintenance and creation of employment opportunities;

6. the grant of unemployment benefit.

The Federal Institution shall engage in employment market and vocational research work.

(3) The Federal Institution shall normally inform the public of the services and benefits available under this Act.

(4) The Federal Institution shall grant unemployment assistance on behalf of the Federal Republic.

(5) The Federal Government may by ordinance entrust the Federal Institution with further duties connected with those discharged by it in accordance with this Act.

Division II. Employment and Employment Market

Subdivision I. General Provisions

4. Save as provided to the contrary in the second sentence of subsection (1) of section 18 and subsection (1) of section 23 vocational guidance and placement in vacancies for training or employment shall be carried on only by the Federal Institution.

5. Efforts shall be made to place persons in vacancies for training or employment and measures taken for the promotion of vocational training before benefits are provided under Divisions III and IV.

6. (1) The Federal Institution shall follow and investigate the scale and nature of employment and the situation and trends on the employment market and in the various occupations and vocational training opportunities, not only in general and in the different economic sectors and areas but also against the background of the social structure and shall use its findings for the better performance of its duties (employment market and vocational research work). It shall reach agreement on such work with the Federal Minister of Labour and Social Affairs. The findings of the research shall be submitted to the Minister.

(2) The Federal Institution shall make the necessary administrative and technical arrangements for its employment market and vocational research work. It shall prepare, maintain and process the necessary documents.

(3) The Federal Institution shall prepare statistics relating more particularly to employment and unemployment among employees on the basis of the documents available within its field of work. The results shall be reported to the Federal Minister of Labour and Social Affairs. The Minister

shall have power to make more detailed provision for the nature and scale of the statistics and reports mentioned in the first and second sentences of this subsection.

(4) The Federal Government may by ordinance (which shall be valid for a maximum of three years) direct that the Federal Institution, with the object of supplementing the documents available within its field of work, is to conduct—

1. ad hoc or regularly recurring statistical surveys of employed persons;
2. statistical surveys of occupational activities and vocational training opportunities.

For this purpose an indication shall be given of the facts to be collected and the persons to be questioned. The results of the surveys must be necessary for the better achievement of the purposes of this Act.

7. (1) The owners of establishments, competent authorities and persons engaged in any kind of gainful occupation shall be required to furnish the Federal Institution, on request, with the necessary information for the purposes of section 6. Any person required to furnish information shall be entitled to refuse to answer questions which, if answered, would expose him personally or any of his relatives, as defined in clauses 1 to 3 of subsection (1) of section 383 of the Code of Civil Procedure, to the danger of prosecution in a criminal court or proceedings under the Offences Act.

(2) Information shall be furnished truthfully and fully, within the prescribed time limit and, save as provided to the contrary, free of charge.

(3) Where the Federal Institution has provided for forms to be filled in by persons covered by a survey, the information shall be furnished on such forms. The accuracy of the information furnished shall be confirmed by the informant's signature, if the form so provides.

(4) Individual statements made in connection with the personal or material circumstances of an informant for the purposes of a survey or inquiry conducted under section 6 shall, unless provision to the contrary is made by law, be treated as confidential by the Federal Institution. The provisions of sections 175 and 179, subsection (1) of section 188 and section 189 of the Federal Taxation Code as to the obligation to provide the finance offices with information and assistance shall to that extent not apply to the Federal Institution. No publication incorporating findings based on a survey or inquiry conducted under section 6 shall contain any individual statement. A summary of statements made by two or more persons required to furnish information shall not be regarded as an individual statement for the purposes of this subsection.

8. (1) Where perceptible changes in an establishment within the next

twelve months will probably result in the dismissal of employees or their reassignment to other lower-paid employment in numbers corresponding to those indicated in clauses *(a)* to *(c)* of subsection (1) of section 15 of the Protection against Dismissal Act[1], the employer shall immediately give notice of the fact in writing to the head of the Land employment office. The notice shall be accompanied by a statement of the views expressed by the works council.

(2) When taking measures under this Division the Federal Institution shall have regard for any interest that an establishment may have in ensuring that the projected changes are kept secret, in so far as such secrecy is compatible with the advantages from the standpoint of employment market policy that such measures should be taken in good time.

(3) Where an employer has failed to give the notice required under subsection (1) either wilfully or through gross negligence, the Federal Institution may require him to compensate it for any expenditure incurred over a period of six months in connection with the retraining of employees who have been dismissed or reassigned to other employment.

9. The Federal Minister of Labour and Social Affairs may by ordinance prescribe that employers are to report any vacancies for employment or training available in their establishments to the appropriate local employment office, in so far as may be necessary for the purposes of finding employment or vocational training opportunities or for the purposes of employment market and vocational research work. The obligation to report may be restricted to a specified period or to specified economic sectors, areas, occupations or groups of employees. It shall not apply to posts that have become vacant as a result of an industrial dispute.

10. (1) Every employer shall report the engagement and dismissal of employees, including persons employed with a view to their vocational training, within three days to the local employment office in whose area the establishment is situated. Reports relating to employees who are required to belong to a local, Land or guild sickness fund and reports relating to salaried employees who are not compulsorily insured against sickness and whose contributions to the Federal Institution have to be paid to a local, Land or guild sickness fund shall be transmitted to the sickness fund together with their registration or the cancellation of their registration. The sickness fund shall be required to forward to the local employment office such reports as are intended for it.

(2) For the purposes of subsection (1) the Federal Minister of Labour and Social Affairs may by ordinance provide for the form and content of the

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[1] *Legislative Series*, 1951—Ger.F.R. 4.

reports to be submitted. He may prescribe that certain groups of employees are to be exempted from the obligation to report under that subsection.

11. (1) The collection offices (subsections (3) and (4) of section 176) shall furnish the Federal Institution with a monthly report indicating the number of persons liable for compulsory contributions under this Act. The Federal Institution may inspect the records and statistics of the collection offices in so far as may be necessary for the discharge of its duties.

(2) The social insurance carriers shall produce their records and statistics for inspection by the Federal Institution, on request, in so far as may be necessary for the discharge of its duties.

(3) The provisions of subsection (4) of section 7 as to the secrecy of individual statements shall apply, *mutatis mutandis*, to the information furnished under subsections (1) and (2).

(4) The Federal Minister of Labour and Social Affairs shall, subject to the approval of the Federal Council, issue regulations for the administration of subsections (1) and (2).

12. For the purposes of this Division the expression "employee" includes persons engaged in home work (subsection (1) of section 1 of the Home Work Act[2]).

Subdivision II. Placement

13. (1) For the purposes of this Act the expression "placement" means any activity designed to bring jobseekers and employers together with the object of establishing an employment relationship or to bring jobseekers and home-work employers or intermediaries together with the object of establishing a home-work relationship within the meaning of the Home Work Act.

(2) The expression "placement" shall also be deemed to include the publication, distribution and display of lists of vacancies and applications for employment (including such reprints and extracts from periodicals as can be regarded as equivalent to such lists) and the notification of vacancies and applications on the wireless or television. The foregoing shall be without prejudice to the advertisement of vacancies and applications in newspapers, magazines, trade journals and similar periodicals.

(3) For the purposes of this Act the expression "placement" shall not be deemed to include—

1. measures taken by the public social security authorities as a preliminary to the establishment of an employment relationship, in so far as such

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[2] *Legislative Series*, 1951—Ger.F.R. 1.

measures are necessary in each individual case to discharge the duties entrusted to those authorities by law;

2. the occasional and gratuitous recommendation of employees for recruitment.

14. (1) The Federal Institution shall endeavour to ensure that jobseekers obtain employment and employers the necessary labour. In so doing it shall have regard for the special conditions attaching to vacancies and for the aptitudes and personal circumstances of jobseekers. It may, subject to the consent of the jobseekers concerned and to such extent as may be necessary to take account of their state of health in connection with their placement, arrange for them to be given a medical examination and for a medical report to be prepared; it may also, in special cases and subject to the consent of the jobseekers concerned, arrange for them to be given a psychological test and for a psychologist's report to be prepared.

(2) In cases covered by clauses 4 and 6 of section 2 the Federal Institution may take action to consolidate the employment relationships established, in so far as may be necessary.

15. Independently of its placement work the Federal Institution shall also, on request, inform employees and employers of the employment market situation, trends in the different occupations, the need for and possibilities of obtaining vocational training or incentives in connection with such training and the incentives available for entering employment, and give advice on questions relating to the choice or filling of vacancies (vocational guidance). Guidance shall take account of the applicants' wishes and also, in the case of employees, their knowledge and abilities and, in the case of employers, the requirements of their establishments.

16. The Federal Institution shall not normally co-operate in the establishment of employment relationships whose terms are contrary to the provisions of a collective agreement, if it is aware that such terms are contrary to those provisions and that the employee and employer concerned are bound by the agreement. The foregoing shall apply, *mutatis mutandis*, to any departure from minimum conditions of employment fixed in virtue of the Act of 11 January 1952 respecting the prescribing of minimum conditions of employment (*Bundesgesetzblatt*, Part I; p. 17)[3] or section 19 or 22 of the Home Work Act.[2]

17. (1) Employers shall be bound, and trade unions entitled, to give written notice of the beginning and end of any industrial dispute to the appropriate local employment office for the establishment concerned. The Federal Minister of Labour and Social Affairs may by ordinance make pro-

[3] *Legislative Series*, 1952—Ger.F.R. 1.

vision for the time limits and forms to be observed in giving notice and determine the cases in which an association of employers may give collective notice exempting the employers specified therein from this requirement.

(2) Where notice of the beginning of an industrial dispute has been given in accordance with subsection (1), the Federal Institution shall not engage in placement in the field directly affected by the dispute unless the jobseeker and employer concerned request it to do so, despite the fact that it has informed them of the existence of the dispute.

18. (1) Responsibility for recruiting and placing employees with a view to their employment abroad and for recruiting employees abroad and placing them with a view to their employment in the Federal Republic shall lie with the Federal Institution. Other agencies and persons shall require the prior permission of the Federal Institution in each individual case, unless they are in possession of a special mandate in accordance with the second sentence of subsection (1) of section 23. The Federal Institution shall take its decision with due regard for the legitimate interests of German employees and the German economy in the light of the situation and trends on the employment market. Its permission may be given subject to certain conditions and instructions.

(2) The foregoing shall be without prejudice to the legal provisions made by the European Communities.

(3) For the purposes of subsection (1) the Federal Minister of Labour and Social Affairs may by ordinance make provision for the nature, scope, duration and cancellation of its permission and for the procedure to be followed.

(4) The Federal Minister of Labour and Social Affairs may issue directives to be followed by the Federal Institution in its administration of the ordinance made under subsection (3), the provisions made by the authorities of the European Communities and any international agreements governing the recruitment and placement of employees in cases covered by subsection (1).

19. (1) Employees who are not Germans within the meaning of section 116 of the Basic Law[4] shall require a permit from the Federal Institution to engage in employment, save as is provided to the contrary in international agreements. The permit shall be issued in the light of the situation and trends on the employment market, with due regard for the circumstances in each individual case. It shall be issued for a specified period of time and may be restricted to specified establishments, groups of occupations, economic sectors or areas. Employers shall not be permitted to employ employees who

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[4] *Legislative Series*, 1949—Ger.F.R. 1 (extracts), 1956—Ger.F.R. 1.

are not Germans within the meaning of section 116 of the Basic Law unless such employees hold a permit in accordance with the first sentence of this subsection.

(2) The foregoing shall be without prejudice to the legal provisions made by the European Communities or to subsection (1) of section 17 of the Act of 25 April 1951 respecting the legal position of stateless aliens on federal territory (*Bundesgesetzblatt*, Part I, p. 269).

(3) For the purposes of subsection (1) the Federal Minister of Labour and Social Affairs may by ordinance make provision for the nature, scope, duration and cancellation of permits and for the procedure to be followed. He may by ordinance allow exceptions to be made in respect of particular groups of occupations and categories of persons.

(4) The Federal Minister of Labour and Social Affairs may issue directives to be followed by the Federal Institution in its administration of the ordinance made under subsection (3), the provisions made by the authorities of the European Communities and any international agreements governing the employment of employees in cases covered by subsection (1).

20. (1) Placement and vocational guidance shall be carried on impartially.

(2) Jobseekers and applicants for guidance shall not be questioned regarding their membership [in] a political, trade union or similar association unless the nature of the establishment or type of employment so warrants.

(3) Where placement is undertaken on behalf of the Federal Institution by an agency established by a trade union and its by-laws provide for its placement facilities to be available to members only, jobseekers and applicants for guidance may be asked whether they are members of the trade union in question.

(4) Jobseekers and applicants for guidance shall not be questioned regarding their membership [in] a religious or philosophical community unless the nature of the establishment or type of employment so warrants or the employer wishes to admit the jobseeker as a member of his household and has expressly indicated that membership of a particular community is a condition of his offer.

(5) The Federal Institution shall not be permitted to give an unfavourable description of an employee with the object of preventing his engagement or co-operate in the victimisation of employees or in any similar activity directed against employers.

21. (1) The Federal Institution shall provide placement and vocational

guidance facilities free of charge. Where its expenses are above the average, it may require employers to pay fees covering all or part of such expenses, to the extent that they exceed the average incurred in connection with placement or vocational guidance work. The Federal Institution may by order prescribe whether and to what extent fees are to be charged in accordance with the second sentence of this subsection.

(2) The Federal Institution may by order prescribe that employers availing themselves of its services in connection with the placement of foreign employees on the basis of international agreements are to pay a fee. Such fee shall be charged for the expenses incurred by the Federal Institution in connection with the administration of the agreements. Account may also be taken for this purpose of expenses incurred in connection with measures designed to facilitate the assimilation of foreign employees into the economy and society of the Federal Republic of Germany.

22. An indication may be given in the course of placement or vocational guidance of any special features of a vacancy that may be of importance to the jobseeker or applicant for guidance, and also of any special characteristics of a jobseeker or applicant for guidance that may be of importance in connection with his fitness for the post, on condition that a knowledge of these special features or characteristics was acquired officially and such action is justified by particular circumstances, such as the admission of the employee as a member of the household. The relevant information must be given on request. The findings of an examination or report in terms of the third sentence of subsection (1) of section 14 may not be communicated without the jobseeker's consent.

23. (1) In exceptional cases and after consulting the employers' and employees' associations concerned, the Federal Institution may, on request, give a mandate to agencies or persons to undertake placement operations in individual occupations or for individual groups of persons, where such a mandate is in the interests of placement and the agency or person making the request offers a guarantee that the mandate will be properly discharged. Without prejudice to subsection (1) of section 18 it shall not be lawful to recruit or place employees with a view to their employment abroad or to recruit employees abroad or place them with a view to their employment in the Federal Republic without a special mandate from the Federal Institution.

(2) Agencies and persons given a mandate to undertake placement operations shall be subject to the supervision of the Federal Institution and shall comply with its directives. A mandate under the first or second sentence of subsection (1) shall be given for one year at a time. It may be subject to certain limitations. It may be cancelled if the agency or person holding it so requests or fails, despite repeated warnings, to comply with the provisions issued by the Federal Institution for the discharge of the mandate and the

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conduct of the holder's business or with the directives of the Federal Institution or if it is found that the conditions for the mandate were not, or are no longer, fulfilled.

(3) The Federal Institution may by order make provision for the giving, discharge and cancellation of mandates, the conduct of the holders' business and the exercise of supervision by the Federal Institution.

(4) The foregoing shall be without prejudice to the provisions of the Act of 9 July 1954 respecting the resumption of non-profit-making placement by voluntary welfare agencies (*Bundesgesetzblatt*, Part I, p. 179).

24. (1) Jobseekers and employers may be charged fees for placement in employment under subsection (1) of section 23 only to the extent required to cover the necessary expenses.

(2) Higher fees than those provided for in subsection (1) may be charged only in the case of persons belonging to occupations where a higher charge is necessary in the interests of efficient placement (profit-making placement).

(3) For the purposes of subsections (1) and (2) the Federal Minister of Labour and Social Affairs may by ordinance, and with due regard for the nature and duration of the employment relationships established, the special characteristics of the mandates given under subsection (1) of section 23 and the average expenses necessarily incurred in connection with the placement operations carried on, make provisions laying down in greater detail the conditions, rates and time limits to be observed in connection with the payment of fees and specifying the persons liable to pay them. Where higher fees are fixed in terms of subsection (2), the rate shall be so calculated that it allows for an appropriate profit to be made.

Subdivision III. Vocational Guidance

25. (1) For the purposes of this Act the expression "vocational guidance" means the provision of advice and information on matters relating to the choice of an occupation, including a change of occupation. It shall be supplemented by the provision of vocational information and details of the vocational training incentives available in individual cases and the placement of applicants in training vacancies.

(2) Advice and information given occasionally and free of charge in individual cases or by the public social security authorities in cases covered by clause 1 of subsection (3) of section 13 shall not be deemed to constitute vocational guidance.

26. (1) The Federal Institution shall advise young persons and adults on all matters relating to their choice of an occupation (section 25) and their

advancement in an occupation both before they take up their careers and also during their careers. When so doing it shall take due account of the situation and trends on the employment market and in the individual occupations. It shall normally subordinate the interests of individual economic sectors and occupations to general economic and social considerations.

(2) The Federal Institution shall also advise applicants for guidance on matters relating to their schooling, in so far as they are relevant to their choice of an occupation or prospects of a career.

(3) Where necessary the Federal Institution may also follow up and advise applicants, with their consent, after the commencement of their training.

27. (1) Vocational guidance shall take account of an applicant's physical, mental and psychological characteristics, inclinations and personal circumstances.

(2) The Federal Institution may arrange, subject to an applicant's consent, for him to be given a psychological test or medical examination and for a psychologist's or medical report to be prepared, in so far as may be necessary to judge his fitness for an occupation.

28. In its vocational guidance work the Federal Institution shall normally furnish information on the possibilities of obtaining vocational training incentives in the light of the circumstances of each individual case.

29. (1) For the purposes of this Act the expression "placement in training vacancies" means any activity designed to achieve the establishment of vocational training relationships.

(2) The Federal Institution shall endeavour to ensure that suitable applicants for guidance are placed in training vacancies affording every guarantee from the technical, health and educational standpoints. In so doing it shall take account of the applicant's personal circumstances and the special conditions attaching to the training vacancies available.

(3) Subsections (2) and (3) of section 13, sections 16 and 18, subsection (2) of section 25 and section 27 shall apply, *mutatis mutandis*.

30. Sections 20 to 22 shall apply, *mutatis mutandis*, to vocational guidance and placement in training vacancies.

31. For the better performance of its duties the Federal Institution shall provide vocational information. When so doing it shall normally supply the fullest possible particulars on all matters relating to the choice of an occupation (section 25) and also on the occupations themselves, the qualifications and prospects connected with them, the vocational training incentives and facilities available and the developments of occupational significance in establishments and government departments and on the employment market.

32. In its provision of vocational information and guidance and its placement of applicants in training vacancies the Federal Institution shall normally co-operate with the agencies responsible for general education and vocational training, and especially with the competent authorities concerned with in-plant training, employers' and trade union institutions, schools, colleges and the authorities of the welfare, youth and health services.

Subdivision IV. Vocational Training Incentives

I. *General Provisions*

33. (1) The Federal Institution shall provide incentives for vocational training, further training and retraining in accordance with the provisions of this Subdivision. In so doing it shall normally co-operate with the vocational training authorities, whose rights shall not be affected by this Subdivision.

(2) The Federal Institution may arrange for further training and retraining programmes to be carried out by other authorities or may carry out such programmes either alone or jointly with other agencies.

34. Incentives to participate in vocational training programmes, as provided in this Subdivision, shall extend to programmes in which instruction is provided throughout the day (full-time instruction), concurrently with the person's work (part-time instruction) or by correspondence. It shall be a condition of such incentives that the length of the programme, content of the syllabus, method of instruction and training and occupational experience of the director and teaching staff are such that the training provided is likely to be successful.

35. The Federal Institution may establish an Advisory Council on Vocational Training by Correspondence, whose membership shall include representatives of employers, employees and other economic bodies concerned with vocational training. It shall be the duty of the Council, if so requested by the Federal Institution, to give an opinion on whether the conditions for the provision of vocational training incentives under this Subdivision are fulfilled in the case of certain correspondence courses.

36. Benefits in the form of vocational training incentives for individuals shall be granted only if the applicants are suitable and the provision of the incentives seems appropriate, having regard to the situation and trends on the employment market and the applicants' occupational preferences.

37. Benefits in the form of vocational training incentives for individuals (sections 40 to 49) shall be granted only to the extent that other public authorities are not under a legal obligation to provide them. The foregoing

shall not affect the subsidiary nature of social assistance, as provided in subsection (2) of section 2 of the Federal Social Assistance Act.[5]

38. (1) To the extent that and for such time as a public authority does not grant the benefits that it is under a legal obligation to provide in terms of section 37, the Federal Institution shall grant the benefits referred to in sections 40 to 49 as if the aforesaid authority were under no such obligation.

(2) The local employment office shall immediately give notice of the grant of benefits under sections 40 to 49 to the other authority that is under an obligation to provide benefits. The effect of the notice shall be to transfer any claim against the other authority to the Federal Institution, to the extent that the latter incurs expenses in connection with the grant of benefits under sections 40 to 49. The fact that the claim is not liable to assignment, hypothecation or attachment shall not prevent its being transferred to the Federal Institution. Where the claim relates to any form of benefit other than cash benefit, it shall, on being transferred to the Federal Institution, be converted into a monetary claim equal to the cash value of the benefit to be provided by the other authority.

39. The Federal Institution shall by order make more detailed provision for the conditions, nature and scope of the vocational training incentives referred to in this Subdivision. Account shall be taken for this purpose—

1. in the case of individual incentives, of the applicants' personal circumstances, their aim in seeking vocational training, the purpose of the incentives granted and the situation and trends on the employment market;

2. in the case of institutional incentives, of the nature of the programmes to be carried out in the institutions concerned and the general aim pursued in connection with the training by the persons participating in such programmes.

II. *Vocational Training Incentives for Individuals*

A. Vocational Training

40. (1) The Federal Institution shall grant subsidies and loans to young persons and adults to enable them to receive appropriate vocational training in establishments or inter-works institutions or participate in basic training and continuation courses and other programmes preparing them for an occupation, in so far as they cannot raise the necessary money themselves and the persons responsible for their maintenance cannot reasonably be expected to raise the money by normal means.

(2) Benefits under subsection (1) shall be granted to Germans within

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[5]*Legislative Series*, 1961—Ger.F.R. 5.

the meaning of section 116 of the Basic Law.[4] They shall also be granted to aliens within the meaning of the Act of 25 April 1951 respecting the legal position of stateless aliens on federal territory (*Bundesgesetzblatt*, Part I, p. 269) and to aliens who have been recognised as having a right of asylum under section 28 of the Aliens Act of 28 April 1965 (ibid., p. 353) and have their customary residence within the sphere of application of this Act. Benefits under subsection (1) shall also be granted to the extent that provision to that effect is made in ordinances issued by the European Communities.

(3) To the extent that and for such time as an applicant does not receive maintenance benefits to which he is entitled, the Federal Institution may grant him incentives under subsection (1) irrespective of such benefits. The first, second and third sentences of subsection (2) of section 38 shall apply, *mutatis mutandis*.

B. Further Training

41. (1) The Federal Institution shall grant incentives to participants in programmes requiring the prior completion of vocational training or appropriate experience and designed to determine, maintain or extend their knowledge and abilities in their chosen occupations, adapt such knowledge and abilities to technical developments or enable them to be promoted (further training).

(2) Incentives to take part in a further training programme shall normally be granted only if the duration of the programme does not exceed two years; this time limit shall not apply to programmes where instruction is provided concurrently with the person's work.

42. Incentives shall be granted to persons who have been working, or desire to work, in employment in respect of which compulsory contributions are payable and whose abilities and previous occupational activity would seem to indicate that they can successfully take part in a further training programme.

43. (1) Incentives shall be granted to participants in further training programmes designed, *inter alia*, to—

1. enable them to be promoted;
2. adapt their knowledge and abilities to the requirements of their occupations;
3. enable women jobseekers to enter or re-enter the employment market;
4. enable them to pass a final trade test that they have not taken hitherto;
5. give instructors basic and further training;
6. resettle ageing jobseekers.

(2) Incentives shall not be granted to participants in programmes designed to meet the needs of a given establishment or group unless such programmes offer some particular advantage from the standpoint of employment market policy.

44. (1) Participants in whole-day further training programmes (full-time instruction) shall be paid a maintenance allowance. Participants in programmes where the instruction is provided concurrently with their work shall be paid a maintenance allowance if they miss at least one-third of the normal weekly hours of work customarily observed in the establishment as a result of their attendance.

(2) Maintenance allowances shall consist of a basic amount and family supplements. The basic amount shall be calculated in accordance with the recipient's remuneration, as indicated in the table forming a schedule to this Act; family supplements shall be at the rate of 14.40 DM a week. Subsections (2) to (8) of section 112, subsections (1) and (2) of section 113 and section 114 shall apply, *mutatis mutandis*.

(3) Where it is impossible to assess the maintenance allowance in accordance with subsections (2) to (6) of section 112, it shall be assessed as in cases covered by subsection (7) of section 112.

(4) Any income derived by the recipient of a maintenance allowance from employment or self-employment shall be deducted from the allowance, to the extent that it exceeds 50 DM a week, after deduction of taxes, social insurance contributions, contributions to the Federal Institution and out-of-pocket expenses.

(5) Where a participant is unemployed within the first six months following the conclusion of a programme, he shall also be paid a maintenance allowance for the first seventy-eight days' unemployment or, if the programme lasted for at least one year, for the first 156 days' unemployment. In this case the allowance shall be 15 per cent less than the rate calculated under subsection (2).

(6) Where the recipient of a maintenance allowance ceases without a valid reason to participate in a programme before the programme is completed, the Federal Institution may require him to refund the amount paid out by way of maintenance allowances, to the extent that he would not have been entitled to either unemployment benefit or unemployment assistance in respect of the same period.

(7) The provisions of Division IV as to unemployment benefit shall apply, *mutatis mutandis*, in so far as is compatible with the special nature of maintenance allowances.

45. The Federal Institution shall assume responsibility for all or part

of the necessary costs directly incurred in connection with a further training programme, such as teaching expenses, outlay on teaching equipment, travelling expenses, the cost of working clothes, sickness and accident insurance contributions and, if a participant has to live away from home, the cost of his board and lodging.

46. Where the conditions laid down in sections 41 to 43 are not fulfilled, the Federal Institution may grant loans as an incentive towards further training, if it is appropriate to do so in the light of the situation and trends on the employment market.

C. Vocational Retraining

47. (1) The Federal Institution shall grant incentives to jobseekers participating in programmes designed to enable them to transfer to some other suitable form of employment, with the particular object of ensuring or improving their occupational mobility (vocational retraining). Subsection (2) of section 43 and sections 44 and 45 shall apply, *mutatis mutandis*.

(2) Benefits under subsection (1) shall not be granted to the extent that similar benefits are being or probably will be provided by the employer.

(3) Where retraining can prevent unemployment among jobseekers who are still employed, it shall be provided as rapidly as possible. Incentives shall normally be granted to participants only if the duration of the retraining programme does not exceed two years.

48. The Federal Institution may grant loans as an incentive towards vocational retraining in the case of suitable persons who have no claim under subsections (1) and (3) of section 47, if it is appropriate to do so in the light of the situation and trends on the employment market.

49. (1) The Federal Institution may grant subsidies to employers in respect of employees who can only attain maximum efficiency at their jobs after an initial period of adaptation (adaptation subsidies). Subsection (2) of section 47 shall apply, *mutatis mutandis*.

(2) An adaptation subsidy shall not normally be granted for longer than one year. The amount payable for the entire period of adaptation shall not exceed 60 per cent of the remuneration payable by collective agreement or, in the absence of a collective agreement, the remuneration customarily payable in the locality for the employee's occupation.

III. *Vocational Training Incentives for Institutions*

50. (1) The Federal Institution may grant loans and subsidies for the construction, extension and equipment of institutions, including inter-works training centres, that are used for vocational training, further training or re-

training within the meaning of this Subdivision. In exceptional and specially substantiated cases the incentives granted may also extend to the maintenance of the institution.

(2) The Federal Institution shall grant incentives to an institution only—

1. if the authority responsible for the institution contributes to an appropriate extent towards the cost out of its own funds;

2. to the extent that the authority responsible for the institution or some other authority is not under a legal obligation to defray the cost; the foregoing shall not apply to the authorities administering the social assistance scheme.

(3) Subsidies shall only be granted to the extent that the purpose of the incentives provided cannot be achieved by means of loans.

(4) The Federal Institution may make the grant of loans or subsidies conditional upon its right to carry out its own programmes in the institution or to arrange for them to be carried out there by other authorities.

(5) Any person planning to establish an institution of the type referred to in subsection (1) shall give notice of the fact at once to the appropriate Land employment office if it is intended that incentives should be granted under sections 50 to 52 and 55. If such notice is not given in due time, the incentives may be refused.

51. Incentives shall not be granted to an institution if it serves to provide vocational training in vocational training schools or is mainly devoted to the purposes of a given establishment or group or the pursuit of profit. Incentives may by way of exception be granted to such an institution if programmes cannot be carried out in any other way or cannot be carried out on a sufficient scale or in due time.

52. (1) The Federal Institution, acting either alone or jointly with other authorities, shall normally establish institutions, including inter-works training centres, for the purposes of programmes carried out under section 33 if suitable institutions are not available to meet an urgent need.

(2) The Federal Institution, acting either alone or jointly with other authorities, may establish institutions for the purposes of programmes carried out under section 33, to serve as models for the institutions run by other authorities.

Subdivision V. Incentives to Enter Employment

53. (1) The Federal Institution may grant the following benefits as incentives to jobseekers to enter employment:

1. subsidies towards the cost of applying for employment;

2. subsidies towards travelling and removal expenses;

3. equipment;

4. separation allowances, if separate households have to be maintained as a result of the person's entering employment;

5. transitional allowances for a maximum of two months;

6. escort in the case of groups of persons travelling to take up employment in another locality;

7. such other assistance as a person may find necessary to facilitate his entering employment.

A loan may also be granted in substitution for benefits covered by clause 1, 2, 3, 5 or 7.

(2) The Federal Institution may also grant the benefits referred to in subsection (1) to persons intending to enter an occupation whom it places in a training relationship.

(3) Benefits under subsections (1) and (2) may be granted only to the extent that the jobseekers concerned cannot raise the necessary money themselves. Sections 37 and 38 and subsection (2) of section 47 shall apply, *mutatis mutandis*.

(4) The Federal Institution may by order make provisions for the administration of subsections (1) and (2). When so doing it may specify that benefits under subsection (1) are not to exceed a certain maximum amount and that they may also be granted to dependents, and may prescribe whether and to what extent benefits may be granted in the case of employment taken up abroad.

54. (1) The Federal Institution may grant loans or subsidies to employers with a view to the resettlement of jobseekers who are difficult to place in the normal conditions of the employment market. Such benefits shall not normally exceed 60 per cent of the remuneration fixed by collective agreement or, in the absence of a collective agreement, the remuneration customarily payable in the locality and occupation concerned, or be granted for longer than two years.

(2) For the purposes of subsection (1) the Federal Institution may by order make more detailed provision for the conditions, nature and scope of the incentives to be granted.

55. (1) The Federal Institution may grant loans or subsidies as incentives towards the establishment of hostels for the use of employees and young persons, if it is appropriate to do so in the light of the situation and trends on the employment market.

(2) For the purposes of subsection (1) the Federal Institution may by order make more detailed provision for the conditions, nature and scope of the incentives to be granted.

Subdivision VI. Industrial and Vocational Rehabilitation of Handicapped Persons

56. In its programmes the Federal Institution shall take account of the special circumstances of physically, mentally or psychologically handicapped persons. For the purposes of this Act persons in danger of suffering from any such handicap shall be placed on the same footing as handicapped persons.

57. To facilitate the resettlement of handicapped persons in employment the Federal Institution shall itself carry out any appropriate industrial and vocational rehabilitation programmes needed to maintain, improve or restore the earning capacity of such persons, in so far as no other authority is competent to do so; where some other authority is competent, the Federal Institution shall suggest to it that such programmes should be carried out.

58. (1) The provisions of Subdivisions IV and V shall apply as regards the grant to handicapped persons of vocational training incentives and incentives to enter employment.

(2) In the case of a participant in a vocational training programme who was prevented by a physical, mental or psychological handicap from earning more than a relatively low rate of remuneration, or any remuneration at all, before the commencement of the programme, the maintenance allowances payable under section 44 shall be assessed as in cases covered by subsection (7) of section 112. The occupation taken for this purpose shall be that in which the participant will probably be working on the completion of the programme.

59. (1) In matters relating to the industrial and vocational rehabilitation of handicapped persons the Federal Institution shall work in close co-operation with the other competent authorities. Such authorities shall consult the Federal Institution before introducing an industrial or vocational rehabilitation programme.

(2) The Federal Institution shall take the earliest possible opportunity of furnishing handicapped persons with advice on appropriate industrial and vocational rehabilitation programmes. Where a handicapped person is accommodated in a hospital, sanatorium or other similar institution, the advice shall normally be given in consultation with the medical practitioner in attendance in the institution and the authority responsible for carrying out the programme.

(3) The Federal Institution shall arrange for a handicapped person to

follow an industrial or vocational rehabilitation programme as soon as his state of health permits. The stages of the programme shall normally be smoothly dovetailed, as part of an over-all plan agreed upon between the authorities concerned, and ensure that the handicapped person concerned is resettled in employment as fully and durably as possible.

60. (1) The Federal Institution may grant employers training subsidies to enable physically, mentally or psychologically handicapped persons to be given in-plant training in an occupation, if such training cannot be arranged in any other way.

(2) A training subsidy may be granted for the entire duration of the training. It shall not normally exceed the monthly rate of the training wage payable by the employer during the last year of training.

(3) For the purposes of subsections (1) and (2) the Federal Institution shall by order make provision for the detailed conditions, rates and procedures to be observed in the payment of subsidies.

61. (1) The Federal Institution may grant loans and subsidies for the construction, extension and equipment of workrooms where the workplaces take account of the special circumstances of handicapped persons; section 50 shall apply, *mutatis mutandis*.

(2) For the purposes of subsection (1) the Federal Institution shall by order make provision for the detailed conditions, rates and procedures to be observed in the payment of loans and subsidies.

62. (1) The Federal Minister of Labour and Social Affairs shall endeavour to ensure that industrial and vocational rehabilitation programmes for handicapped persons are co-ordinated. He shall consult the other federal ministers and the central authorities of the Länder concerned.

(2) The authorities responsible for administering industrial and vocational rehabilitation institutions and programmes for handicapped persons shall supply the necessary information for the purposes of subsection (1) to—

1. the Federal Minister of Labour and Social Affairs, in so far as they are federal authorities or are subject to supervision by the Federal Republic;

2. the competent central authority of the Land concerned, in so far as they are Land authorities or are subject to supervision by a Land or are operated on a private basis.

The Federal Minister of Labour and Social Affairs and the competent central authorities of the Länder shall compile the necessary information for the purposes of subsection (1) and make it available to one another.

APPENDIX 9

federal register

THURSDAY, JUNE 8, 1972
WASHINGTON, D.C.
Volume 37 ■ Number 111

PART II



DEPARTMENT OF COMMERCE

Office of Trade Adjustment Assistance

■

Adjustment Assistance Regulations

Title 15—COMMERCE AND FOREIGN TRADE

Chapter V—Office of Trade Adjustment Assistance, Department of Commerce

PART 500—ADJUSTMENT ASSISTANCE REGULATIONS

On February 18, 1972, a notice of proposed rule making was published in the FEDERAL REGISTER (37 F.R. 3726) to revoke in its entirety present Part 610, Chapter VI, of Title 15, Code of Federal Regulations containing adjustment assistance regulations and to issue revised regulations as a new Chapter V of Title 15, Code of Federal Regulations.

Interested persons were given 30 days in which t submit written comments. No objections having been received, the proposed regulations are hereby adopted with minor editorial changes and are set forth below.

I hereby find that good cause exists for not postponing the effective date of these regulations beyond the date of publication in the FEDERAL REGISTER, in that they establish procedures for obtaining a benefit; and any postponement would not be in the public interest. Accordingly, these regulations shall be effective as of the date of publication in the FEDERAL REGISTER (6-8-72).

PETER G. PETERSON,
Secretary of Commerce.

MAY 5, 1972.

Subpart A—General

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Subpart B—Eligibility of Firms To Apply for Adjustment Assistance

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Subpart C—Adjustment Proposal

500.30 Application for adjustment assistance.
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Subpart D—Adjustment Assistance

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Subpart G—Investigation and Audit; Penalties

500.70 Investigation and audit.
500.71 Penalties.
500.72 Effect on lenders.

AUTHORITY: The provisions of this Part 500 issued under sec. 401, 76 Stat. 902, 19 U.S.C. 1802; E.O. 11075, 28 F.R. 473; and E.O. 11106, 28 F.R. 3911.

Subpart A—General

§ 500.10 Scope and purpose.

This part, which replaces in its entirety Part 610 of Chapter VI, Title 15, Code of Federal Regulations, sets forth regulations implementing responsibilities of the Secretary of Commerce under chapters 1 and 2 of title III, Trade Expansion Act of 1962, and section 7 of Executive Order 11075, as amended by Executive Order 11106, with respect to adjustment assistance for firms.

§ 500.11 Definitions.

(a) "Act" means the Trade Expansion Act of 1962, 76 Stat. 872, 19 U.S.C. 1801 et seq.

(b) "Secretary" means the Secretary of Commerce or his delegate.

(c) "Department" means the Department of Commerce.

(d) "OTAA" means the Office of Trade Adjustment Assistance, Department of Commerce.

(e) "Director" means the Director of OTAA.

(f) "Agency" includes any agency, department, board, wholly or partly owned corporation, instrumentality, commission or establishment of the United States.

(g) "Firm" includes an individual proprietorship, partnership, joint venture, association, corporation (including a development corporation), business trust, cooperative, trustees in bankruptcy, and receivers under decree of any court. Where determined necessary by the Secretary to prevent unjustifiable benefits, a firm, together with any predecessor, successor or affiliated firm controlled or substantially beneficially owned by substantially the same person or persons may be considered a single firm.

(h) "Person" means an individual, firm, trust or estate.

(i) "Adjustment proposal" means a proposal for economic adjustment of a firm filed under Subpart C of this part.

Subpart B—Eligibility of Firms To Apply for Adjustment Assistance

§ 500.20 General.

No firm may apply for adjustment assistance unless first certified by the Director as eligible to apply pursuant to the requirements of section 302(b)(1) or 302(c) of the Act and of this subpart.

§ 500.21 Statutory criteria.

A firm may seek certification of eligibility to apply for adjustment assistance only if:

(a)(1) The Tariff Commission has made an affirmative finding pursuant to section 301(b)(1) of the Act that, as a result in major part of concessions granted under trade agreements, an article is being imported into the United States in such increased quantities as to cause or threaten to cause serious injury to the domestic industry producing an article that is like or directly competitive with the imported article, (2) the President has provided, pursuant to section 302(a) of the Act, that firms in such industry may request the Secretary for such certification of eligibility, and (3) the applicant firm is a part of such industry;

(b) The Tariff Commission has made an affirmative finding pursuant to section 301(c)(1) of the Act that, as a result in major part of concessions granted under trade agreements, an article like or directly competitive with an article produced by the firm is being imported into the United States in such increased quantities as to cause, or threaten to cause, serious injury to such firm; or

(c)(1) One half of the Tariff Commissioners voting in a case under section 301(b)(1) or 301(c)(1) of the Act have made an affirmative finding and (2) the President has decided to accept the finding of those Commissioners voting in the affirmative as the finding of the Commission: *Provided*, That in a case arising under section 301(b)(1) of the Act the President shall also have provided, pursuant to section 302(a) of the Act, that firms in the industry may request the Secretary for certification of eligibility, and the applicant firm is a part of such industry.

§ 500.22 Certification of eligibility to apply under section 302(b)(1) of the Act.

(a) Following an affirmative finding with respect to an industry by the Tariff Commission pursuant to section 301(b)(1) of the Act (or by the President in cases involving an affirmative finding by one half of the Commissioners voting) and provision by the President pursuant to section 302(a) of the Act that firms in such industry may request the Secretary for certification of eligibility to apply for adjustment assistance, any firm in such industry may apply for such assistance by completing and filing an application as specified in paragraph (b) of this section. Such application must be filed within 1 year of the date of the President's action under section 302(a) of the Act, or such other period of time as he President may specify at the time of such action: *Provided*, That the Director may grant an extension of time for filing such application upon a showing to his satisfaction that timely submission of the application could not reasonably have been made: *And provided further*, That any request for extension of time hereunder must be made prior to expiration

of the time within which such application would otherwise be required to be filed.

(b) An application for certification of eligibility to apply for adjustment assistance under this section must be made in accordance with the provisions of the Act, this part and instructions on the appropriate OTAA form (see § 500.60), and must be accurate and complete. In making such applications, a firm should accurately set forth all facts and conditions that are material to its claim for such assistance, including the extent to which the affirmative finding of the Tariff Commission (with respect to the industry of which the firm is a part) applies to the firm and the extent of the firm's injury (or threatened injury) resulting from increased imports of the product that was the subject of the Tariff Commission's investigation. If insufficient or inconsistent information is submitted in support of such application, the firm will be required to provide additional information or otherwise correct its submission. However, every effort will be made by OTAA to proceed with processing of the application to the extent feasible in the interim.

(c) The Secretary will certify a firm that has made a timely application under this section as eligible to apply for adjustment assistance upon a finding that:

(1) The article like or directly competitive with the imported article that was the subject of the Tariff Commission's investigation is or was a significant part of the applicant firm's line of production; and

(2) The serious injury or threat thereof found by the Tariff Commission to exist with respect to the industry in question is likewise applicable to the applicant firm.

(d) In making the finding called for in paragraph (c) of this section the Secretary will, among other pertinent considerations, give due regard to the following factors which applicants should document in detail:

(1) *Economic factors.* In determining whether increased imports of the article in question have caused serious injury or threat thereof to such firm, economic factors that are considered relevant include: (i) Idling of the firm's productive facilities capable of producing the like or directly competitive article, (ii) inability of the firm to operate at a level of reasonable profit, (iii) unemployment or underemployment in the firm, and (iv) competitive position of such firm in relation to other firms in the industry.

(2) *Injury or threat thereof.* For the purpose of this section, (i) "serious injury" to a firm means a major adverse impact on its economic condition from which it cannot reasonably be expected to recover without adjustment assistance provided under this part, and (ii) "threat of serious injury" means that an economic trend has been established that can reasonably be expected to continue and to result in serious injury to the firm in the foreseeable future. A long-range possibility of serious injury is not sufficient to demonstrate a threat thereof.

(3) *Causation.* Increased imports of the article in question shall be considered to have caused serious injury, or threat thereof, to the applicant firm if the Secretary finds that such imports have been the major factor in causing such injury or threat thereof.

(e) While OTAA will provide all practicable counsel and assistance in the preparation of applications under this section for certification of eligibility to apply for adjustment assistance, the burden is on each firm to establish its own case.

§ 500.23 Certification of eligibility to apply under section 302(c) of the Act.

Following an affirmative finding with respect to a firm by the Tariff Commission pursuant to section 301(c)(1) of the Act (or by the President in cases involving an affirmative finding by one half of the Commissioners voting), such firm may apply for certification of eligibility to apply for adjustment assistance by filing with the Director a sworn statement, subscribed by the owners, partners or officers of such firm that no material facts were omitted from, and there has occurred no significant change in economic circumstances affecting the firm since presentation of the firm's case to the Tariff Commission. Following receipt of such statement, the Secretary ordinarily will certify promptly that such firm is eligible to apply for adjustment assistance.

§ 500.24 Material change in conditions; denial or revocation of eligibility certification.

(a) A firm that has applied for certification of eligibility to apply for adjustment assistance under § 500.22 or § 500.23 must promptly inform the Director in writing of any material change in economic conditions affecting such firm, including any change in the principal ownership of such firm and any change that has occurred in the facts contained in or underlying the representations set forth in the petition that was filed with the Tariff Commission under section 301(b)(1) or (c)(1) of the Act or in its application to the Secretary under § 500.22 or § 500.23 for certification of eligibility (and any amendments thereto).

(b) At any time, prior to certification of an adjustment proposal, the Secretary may deny or revoke certification of a firm as eligible to apply for adjustment assistance under § 500.22 or § 500.23 upon a finding that: (1) As a result of a material change in economic conditions affecting such firm following the date of the Tariff Commission's finding, adjustment assistance under this part is not required by such firm to achieve economic recovery from the serious injury or threat thereof found by the Tariff Commission to exist with respect to the firm or the industry of which it is a part; (2) such firm has willfully or negligently failed promptly to inform the Director in writing of a material change in economic conditions affecting such firm, as required under paragraph (a) of this section or (3) such firm or its agent has made false or misleading representations or statements or has falsified or concealed any material fact in connection with the application for such certification.

Subpart C—Adjustment Proposal

§ 500.30 Application for adjustment assistance.

Application for adjustment assistance by any firm certified under § 500.22 or § 500.23 as eligible to apply for such assistance must be made within 2 years after the date of such certification, by completing and filing with the Secretary the appropriate OTAA form (see § 500.60). An application for tax assistance under this section will also satisfy the requirements of § 500.43(a): *Provided*, That for purposes of determining the taxable years for which net operating losses may be carried back pursuant to certification by the Secretary of the firm's eligibility for tax assistance under § 500.43(c), the filing date of such application for purposes of section 317(a) of the Act and § 500.43(a) shall be the date of the Secretary's certification of the firm's adjustment proposal pursuant to § 500.32.

§ 500.31 Adjustment proposal.

(a) *Filing.* Within a reasonable time after filing an application for adjustment assistance under § 500.30, a firm shall file with OTAA an adjustment proposal, including a detailed description of the firm's plan for economic adjustment, the type and extent of adjustment assistance requested to carry out such plan and all available information bearing on what impact, if any, implementation of such plan would have on the quality of the human environment.[1]

(b) *Preliminary proposal.* A firm that has applied for adjustment assistance under § 500.30 is encouraged to consult informally with OTAA regarding the preparation and scope of its adjustment proposal. The firm may submit a preliminary proposal to OTAA in order to determine whether the adjustment assistance being sought may be provided under the Act and whether the firm's plan for its economic recovery is likely to satisfy criteria for certification of a proposal.

(c) *Technical assistance.* During informal consultation with OTAA or after submitting a preliminary proposal, a firm may request, and the Secretary may at his discretion authorize, technical assistance in the preparation of a sound adjustment proposal. To the maximum extent practicable, technical assistance under this section shall be provided through existing agencies, and otherwise through private individuals or institutions. A firm receiving technical assistance under this section may be required by the Secretary to bear a portion of the cost thereof as determined to be appropriate.

[1] See, National Environmental Policy Act of 1969, 42 U.S.C. section 4321 et seq.; Council on Environmental Quality Guidelines, 36 F.R. 7724, Apr. 23, 1971.

(d) *Environmental impact.* Upon submission of a preliminary adjustment proposal (or, if none is submitted, upon filing an adjustment proposal) pursuant to this section, and at all stages of proposal development thereafter, OTAA will undertake to determine what impact, if any, the firm's plan for economic recovery may have on the quality of the human environment. Should the Director consider that an adjustment proposal could, if implemented as initially submitted, significantly affect the quality of the human environment, OTAA will cooperate with the applicant in exploring reasonable alternatives to achieve economic recovery of the firm in a manner that will minimize adverse impact on the environment. In the event data required by OTAA to evaluate such impact are not readily available to the applicant firm, technical assistance may be provided by the Secretary to facilitate collection and evaluation of such data.

(e) *Content of proposal.* An adjustment proposal should be as complete and detailed as possible and should reflect the full extent of adjustment assistance required. OTAA should be consulted regarding preparation and scope of a particular proposal, since only one proposal of a firm will ordinarily be certified.

(f) *Withdrawal of adjustment proposal prior to certification.* At the discretion of the Secretary, a firm may be permitted to withdraw its adjustment proposal at any time prior to a decision thereon without prejudice: *Provided,* That any new or revised proposal by such firm must be filed within 2 years of the date that the firm was originally certified under § 500.22 or § 500.23 as eligible to apply for adjustment assistance.

§ 500.32 Certification of adjustment proposal.

Adjustment assistance (other than technical assistance furnished under § 500.31 (c) or (d)) will not be provided to a firm under this part until the Secretary has certified that its adjustment proposal: Is reasonably calculated materially to contribute to the economic adjustment of such firm; gives adequate consideration to the interests of the workers of such firm adversely affected by actions taken in carrying out trade agreements; and demonstrates that such firm will make all reasonable efforts to use its own resources for economic development. Except in unusual circumstances, financial assistance will not be furnished if the purpose or use of such assistance would be: To pay the major creditors of a firm who would not otherwise be paid in the absence of such financial assistance; to provide funds for distribution or payment to the owners, partners or shareholders of the firm; to replenish funds used for such purposes; or to effect a change in ownership of the firm, unless such change is necessary to preserve the existence of the firm and facilitate its economic adjustment.

(a) *Material contribution to economic adjustment.* An adjustment proposal must demonstrate that the assistance sought therein will be a constructive aid to the firm in establishing a competitive position in the same or a different industry where there is sufficient demand to employ the efficient capacity of existing competitive enterprises.

(b) *Consideration to the interests of workers.* An adjustment proposal must give adequate consideration to the interests of the workers of such firm adversely affected as the result of the serious injury or threat thereof to such firm. Among reasonable alternatives, adjustment proposals that provide for the rehiring of such workers who have been laid off due to the increased imports are preferred. Efforts by the firm to find new employment for such laid-off workers or assistance rendered to such workers under other Government programs will also be taken into account in evaluating a proposal.

(c) *Reasonable efforts by the firm to use its own resources.* An adjustment proposal must demonstrate that the firm will make maximum use of its own resources and that any funds requested are not otherwise available to the firm, from sources other than the Federal Government, on reasonable terms. In determining whether such funds are not otherwise available to the firm, the Secretary may require satisfactory evidence that the firm has been refused the required credit from banks or other sources, or that the funds do not appear to be obtainable on reasonable terms through a public offering or private placement of securities of the firm or through the sale at a fair price of assets of the firm that are not reasonably required in connection with its economic adjustment.

(d) *Terms and conditions.* Certification of an adjustment proposal may be made subject to any terms and conditions that the Secretary, in his discretion, deems necessary or appropriate to ensure compliance with the requirements for adjustment assistance prescribed under the Act or this part. Such terms and conditions may include, but are not limited to, a requirement that owners, partners, or major shareholders of a firm (or other creditors) shall subordinate, consolidate, or reduce their claims against the firm or shall reduce their ownership interest in the firm as part of a reorganization of its capital and debt structure; or a requirement that owners, partners, or major shareholders of a firm shall make equity contributions or loans to the firm or shall guarantee loans to the firm.

(e) *Action on adjustment proposal.* A firm will be informed in writing when its adjustment proposal has been certified or denied by the Secretary. Promptly after certification, a firm seeking tax assistance under § 500.43 shall notify the Director in writing of the closing date of the taxable year or years for which a net operating loss carryback is sought pursuant to section 317 of the Act.

§ 500.33 Material change in conditions.

After an adjustment proposal of a firm has been certified by the Secretary, such firm must promptly inform the Director in writing of any material change in economic conditions affecting such firm, including any change in the principal ownership of such firm and any material change that has occurred in the facts contained in or underlying the representations set forth in the petition that was filed with the Tariff Commission under section 301 (b)(1) or (c)(1) of the Act, in its application to the Secretary under § 500.22 or § 500.23 for certification of eligibility to apply for adjustment assistance, in its application under this subpart for adjustment assistance or in the certified adjustment proposal.

§ 500.34 Modification of a certified adjustment proposal; revocation of certification.

(a) *Modification.* Requests for modification of an adjustment proposal that has been certified under § 500.32 will not be considered if such modifications would require a major increase in the amount of adjustment assistance to be provided pursuant to this part. Other requests for modification of a certified adjustment proposal that would have the effect of increasing the amount of adjustment assistance required, or would significantly alter either the adjustment proposal or the terms and conditions of its certification, may be granted in the discretion of the Secretary if such request (1) is based upon a material change in the firm's economic condition, not reasonably foreseeable at the time the adjustment proposal was certified, and (2) clearly demonstrates that such modification would contribute materially to the firm's economic adjustment. Upon receipt of written notification that the Secretary has granted a request for modification of a certified adjustment proposal pursuant to this section, the firm shall promptly submit to the Director a modified adjustment proposal, which shall be filed and processed in accordance with the provisions of this subpart and, if filed within a reasonable time, shall be deemed to have been timely filed for purposes of § 500.31(a).

(b) *Revocation.* The Secretary may revoke the certification of a firm's adjustment proposal if, within a reasonable period of time following such certification, agreement is not reached concerning appropriate terms and conditions for adjustment assistance pursuant to § 500.40(b)(1), or upon a finding that (1) as a result of a material change in economic conditions affecting such firm, adjustment assistance is no longer reasonably required by the firm to achieve economic recovery, (2) the firm has experienced a material change in economic conditions that adversely affects the economic viability of the certified adjustment proposal, (3) such firm has willfully or negligently failed promptly to inform the Director in writing of a material change in economic conditions affecting such firm, as required under § 500.33, or (4) such firm or its agent has made false or misleading representations or statements or has falsified or concealed any material fact.

Subpart D—Adjustment Assistance

§ 500.40 Referral of certified adjustment proposals; providing adjustment assistance.

(a) *Referral of proposals.* The Secretary will refer each adjustment proposal certified under § 500.32 to such agency or agencies (including any agency of the Department of Commerce) as he determines to be appropriate to furnish the technical and financial assistance necessary to carry out such proposal.

(b) *Providing adjustment assistance.* The Secretary may furnish adjustment assistance under §§ 500.41 and 500.42 to such firm, if he determines: That such assistance is necessary to carry out the adjustment proposal of the firm and that it will materially contribute to its economic adjustment, and that there are no appropriate government agencies to which a certified adjustment proposal may be referred. To the extent that any agency to which an adjustment proposal of a firm has been referred under paragraph (a) of this section has notified the Secretary of its determination not to furnish technical or financial assistance, the Secretary may also furnish adjustment assistance.

(1) *Authorization.* If the Secretary determines to furnish adjustment assistance to a firm, a written authorization will be issued setting forth appropriate terms and conditions for such assistance, including any conditions that must be satisfied by the firm before assistance will be provided. Implementing legal documents may provide such additional terms and conditions as the Secretary deems appropriate. Assistance that is furnished by the Secretary shall also be subject to the terms and conditions of the firm's certified adjustment proposal.

(2) *Failure to satisfy conditions.* The Secretary may withhold disbursement of funds in connection with any adjustment assistance under this part, if he determines that the firm has not satisfied the terms and conditions of the certified adjustment proposal or of the authorization issued pursuant to § 500.40(b)(1).

(3) *Certification of representative of the firm.* Adjustment assistance will not be provided to a firm unless the owners, partners or officers of such firm shall certify to the Secretary (i) the names of any attorneys, agents and other persons engaged by or on behalf of such firm in connection with any application, proposal or other submission or representation under this part, and (ii) the fees or other consideration paid or to be paid to any such persons for such services.

(4) *Compliance with the Civil Rights Act of 1964.* Adjustment assistance will not be provided to any firm unless the owners, partners, or officers of such firm provide satisfactory evidence that the requirements of title VI of the Civil Rights Act of 1964 will be complied with, and an undertaking to such effect is incorporated into the adjustment proposal.

§ 500.41 Technical assistance.

(a) *Purpose of assistance.* After a determination under § 500.40(b) that technical assistance is necessary to carry out the adjustment proposal of a firm, the Secretary may provide such technical assistance to the firm as in his judgment will materially contribute to the economic adjustment of the firm. Technical assistance includes market and other economic research, feasibility studies, managerial advice and counseling, operation and engineering assistance, employee training and assistance in research and development.

(b) *Forms of assistance.* To the maximum extent practicable, technical assistance will be furnished through existing agencies, and otherwise through private individuals, firms, or institutions working under contracts with the Department. Under special circumstances, a technical assistance grant may be made directly to the firm, subject to the condition that the Direcotr must approve (1) all plans of the firm for spending grant funds and (2) the qualifications of technical assistance personnel, consultants, and contractors.

(c) *Cost sharing.* A firm receiving technical assistance under this section shall be required to bear an appropriate portion of the cost thereof. In determining the firm's share of such cost, consideration will be given to all contributions by the firm, including space, equipment and services, and to the firm's need to conserve funds for working capital purposes.

§ 500.42 Financial assistance.

(a) *Forms of assistance.* After a determination under § 500.40(b) that financial assistance is necessary to carry out the adjustment proposal of a firm, the Secretary may provide such financial assistance to the firm as in his judgment will materially contribute to the economic adjustment of the firm. Financial assistance includes direct loans, guarantees of loans made by financial institutions, and agreements for deferred participation in or purchase upon demand of loans made by financial institutions. Guarantees and agreements for deferred participation are preferred over direct loans, and the Department may subordinate its lien position in order to encourage financial institutions to make loans to a firm. To the maximum extent practicable, financial assistance will be provided through agencies empowered under other law to furnish such assistance.

(b) *Purpose of financial assistance.* Financial assistance provided under this section shall be for the purpose of making funds available to a firm for acquisition, construction, installation, modernization, development, conversion, or expansion of land, plant, buildings, equipment, facilities or machinery, and in exceptional cases only, for working capital.

(1) *Working capital loans.* For purposes of this section, a working capital loan is defined as a loan for the purpose of providing liquidity needed by the firm for minimum cash flow requirements in connection with the conduct of current business operations.

(2) *Exceptional cases.* A finding by the Secretary that a case is exceptional will be made only if: (i) A working capital loan is essential to the adjustment of a firm, and (ii) such funds are not otherwise reasonably available.

(c) *Conditions for financial assistance—(1) Limitation on guarantees or participations.* A loan guarantee or agreement for deferred participation will not be made in an amount greater than 90 percent of that portion of the loan made for the purposes specified in this section.

(2) *Minimum interest rate.* Any loan or deferred participation provided by the Secretary under this section shall bear interest at a rate not less than the greater of (i) 4 percent per annum or (ii) the rate determined by the Secretary of the Treasury under section 315(b)(2) of the Act for the year in which the loan is made or the agreement for such deferred participation is entered into.

(3) *Maximum interest rate.* A guarantee or agreement for deferred participation will be made only with respect to a loan bearing interest at a rate determined to be reasonable in comparison with normal terms for equivalent loans from private sources, not to exceed one percent per annum in excess of the rate determined by the Secretary of the Treasury under section 315(b)(2) of the Act for the year in which the guarantee is made or the agreement for deferred participation is entered into, unless the Secretary finds that special circumstances justify a higher rate not more than 2 percent per annum in excess of the rate determined by the Secretary of the Treasury under section 315(b)(2) of the Act.

(4) *Maturity.* The maturity of loans made or guaranteed, or with respect to which a deferred participation agreement will be entered into, under this section shall not exceed 25 years, including renewals and extensions: *Provided*, That such limitation on maturities shall not apply in the case of (i) securities or obligations received by the Secretary as claimant in bankruptcy or equitable reorganization, or as creditor in other proceedings attendant upon insolvency of the obligor, or (ii) loans with respect to which the Secretary has determined that an extension or renewal for an additional period not exceeding 10 years is reasonably necessary for orderly liquidation.

(5) *Service fee.* The Secretary may impose on a private lender a guarantee or deferred participation service fee of one-half of 1 percent per annum on the unpaid balance of the guaranteed or deferred portion of the loan. Such service fee may not be passed on to the borrower.

(6) *Reasonable assurance of repayment.* Financial assistance will not be provided unless there is reasonable assurance that a loan will be repaid pursuant to its terms. The test of reasonable assurance of repayment will be met only if the loan is sufficiently secured or if the future earnings prospects of the firm indicate ability to repay the loan out of income from the business. In determining the ability of the firm to repay the loan

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from income, the Secretary will consider all factors that he deems relevant, including the firm's total fixed obligations, the adequacy of its working capital, including its cash flow projection, and the ratio between its debts and net worth.

(7) *Agreement not to employ certain persons.* Financial assistance will not be provided to any firm unless the owners, partners or officers shall execute an agreement binding them and the firm, for a period of 2 years after financial assistance is provided, to refrain from employing, tendering any office or employment to, or retaining for professional services any person who, on the date such assistance or any part thereof was provided, or within 1 year prior thereto, shall have served as an officer, attorney, agent, or employee occupying a position or engaging in activities which the Secretary shall have determined involve discretion with respect to the provision of such financial assistance.

(8) *Security provisions.* In providing financial assistance, the Secretary may require such security and other protective devices as he deems appropriate, including (i) mortgages, (ii) security interests, (iii) pledge or hypothecation of inventories and receivables, (iv) personal guarantees of major shareholders, (v) subordination, reduction, and consolidation of claims of existing creditors, (vi) provision for expediting repayments based on favorable earnings, and (vii) restrictions on disbursements, dividends, debts, salaries, acquisition and disposition of assets, liens, expenditures and liabilities.

(9) *Default provisions.* In providing financial assistance, the Secretary may require in any loans or evidences of indebtedness such provisions regarding default and acceleration upon default as he deems appropriate.

(10) *Termination of assistance and recovery of funds in the event of revocation.* Financial assistance provided by the Secretary to implement a certified adjustment proposal shall be subject to his right to terminate such assistance and to recover any funds disbursed thereunder, in the event of revocation of the certification pursuant to § 500.34(b): *Provided*, That recovery of funds disbursed will only be sought in cases where such recovery is deemed appropriate by the Secretary and where revocation was made pursuant to § 500.34(b) (iii) or (iv).

(11) *Other provisions.* In providing financial assistance, the Secretary may require such other terms and conditions relevant to commercial agreements as he deems appropriate, including opinions of counsel and accountants, and affirmative and negative covenants.

(d) *Administration of financial assistance.* (1) The Secretary will exercise all such powers and take all such action as may be necessary or incidental to the administration of financial assistance under this part, including, but not limited to the following:

(i) Assignment or sale at public or private sale, or other disposition of, any evidence of debt, contract, claim, personal property or security assigned to or held by him in connection with such financial assistance, upon such terms and conditions and for such consideration as he shall determine to be reasonable;

(ii) Collection, compromise and deficiency judgments with respect to all obligations assigned to or held by him in connection with such financial assistance until such time as such obligations may be referred to the Attorney General for suit or collection;

(iii) Renovation, improvement, modernization, completion, protection by insurance, rental, sale or other dealing with any real or personal property conveyed to or otherwise acquired by him in connection with such financial assistance, upon such terms and conditions and for such consideration as he shall determine to be reasonable; and

(iv) Acquisition, holding, transfer, release or conveyance of any real or personal property, or any interest therein, whenever deemed necessary or appropriate, and execution of all legal documents for such purposes.

(2) Any mortgage acquired as security under paragraph (c)(8) shall be recorded under applicable State law.

(3) A financial institution that has made a loan in connection with which there has been a guarantee, or with respect to which there is a deferred participation agreement, shall hold the note and all security and other agreements obtained by it in connection with such loan, and shall receive all payments of principal and interest on such loan until such time as the Secretary may purchase the guaranteed or deferred participation share thereof: *Provided*, That except as authorized in writing by the Secretary, such financial institution shall not (i) make or consent to any alteration in the terms of the note or related agreements, (ii) make or consent to any release, substitution or exchange of collateral, (iii) accelerate the maturity of the note, (iv) sell, assign or transfer the note or related agreements, (v) sue upon the note or related agreements, (vi) waive or agree to waive any claim against the borrower or any guarantor, standby creditor or other obligor in connection with the loan, (vii) charge or receive any bonus, fee, commission or expense in any form, directly or indirectly, in connection with the loan, except charges or expenses incurred or earned for services rendered, or (viii) increase the amount due on a prior lien. Such financial institution shall assign and deliver to the Secretary the note and related agreements with respect to such portion of the loan as may be purchased pursuant to the guarantee or deferred participation agreement.

§ 500.43 Tax assistance.

(a) *General.* Upon certification of a proposal for adjustment assistance under § 500.32, a firm may apply for tax assistance with respect to a net operating loss alleged to have been sustained by such firm in a taxable year that closed not more than 24 months prior to the date of such application. Such assistance will permit the firm to carry back a net operating loss to each of the 5 taxable years preceding the year of the loss, rather than the normal 3-year carryback provided in the Internal Revenue Code of 1954, as amended. Tax refunds received by a firm pursuant to a tax assistance certification must be used by such firm in accord with the terms of its certified adjustment proposal.

(b) *Application.* An application for tax assistance filed pursuant to § 500.30 shall satisfy the application requirement of paragraph (a) of this section, but the effective date of filing for purposes of section 317(a) of the Act shall be the date on which the firm's adjustment proposal is certified by the Secretary pursuant to section 500.32 of this part.

(c) *Certification.* Following receipt from the firm of the written notice required by § 500.32(e), eligibility for tax assistance will be certified by the Secretary if he determines that (1) the net operating loss alleged to have been sustained by the firm in a taxable year that closed not more than 24 months prior to the date of its application under this section arose predominantly out of the carrying on of a trade or business which was seriously injured during such year by the increased imports found by the Tariff Commission to have resulted from concessions granted under trade agreements, and (2) tax assistance under this section will materially contribute to the economic adjustment of the firm. A certification under this section shall not constitute a determination of the existence or amount of any net operating loss for purposes of section 172 of the Internal Revenue Code of 1954, as amended.

(d) *Notice to Internal Revenue Service.* At such time and in such manner as may be prescribed pursuant to section 172(b)(3)(A)(1) of the Internal Revenue Code of 1954, as amended, and regulations issued thereunder, the firm or other taxpayers involved must file with the Secretary of the Treasury or his delegate a notice that it or they have applied for tax assistance and, if such assistance is approved, a copy of the certification of eligibility therefor, issued pursuant to paragraph (c) of this section.

(e) *Revocation.* A tax assistance certification may be revoked by the Secretary at any time upon a finding that the tax refunds made to the firm pursuant to such certification are not being used in accord with the terms of the firm's certified adjustment proposal.

Subpart E—Records and Reports

§ 500.50 Records.

(a) Each firm receiving adjustment assistance under this part shall make or cause to be made by any person under the control or direction of such firm, original or facsimile records, receipts or documents with respect to all transactions relating to the receipt, disbursement and utilization of proceeds or other forms of such assistance as are received that will fully disclose their amount and disposition. Such records, receipts or documents shall be in such form and detail as will facilitate effective audit,

(b) In any undertaking to provide adjustment assistance, the Secretary may require the firm to keep, or cause to be kept, such additional records, receipts or documents as he may deem appropriate.

(c) Any records, receipts or documents required to be kept pursuant to this section shall be retained for a period of at least 3 years following completion of the adjustment assistance proposal certified by the Secretary pursuant to Subpart C of this part or until any loans called for therein have been repaid, whichever date is later.

(d) The records, receipts and documents referred to in this section shall include, but not by way of limitation, source materials, journals or other books of original entry, ledgers, financial statements, work papers regardless of by whom prepared, and minute books.

§ 500.51 **Reports.**

Each firm receiving adjustment assistance under this part, and any person under the control or direction of such firm, shall furnish, in the form of notarized reports or otherwise as required by the Secretary, complete information relative to any matter involving or pertinent to the adjustment assistance proposal certified pursuant to Subpart C of this part, and information otherwise reasonably related to such proposal or the purposes of the Act or of this part. The Secretary may require that such reports include the production of any books of account, contracts, letters, or other papers relevant to adjustment assistance received by the firm or transactions related thereto in the custody or control of the firm or person required to make such reports.

Subpart F—Procedures

§ 500.60 **Forms.**

(a) For the convenience and guidance of interested persons, the following printed forms are available for use in connection with submissions under this part in connection with adjustment assistance to firms:

(1) OTA–1, Application for Certification of Eligibility To Apply for Adjustment Assistance (under section 302(b)(1) of the Act).

(2) OTA–2, Certificate of Eligibility To Apply for Adjustment Assistance.

(3) OTA–3, Application for Adjustment Assistance.

(4) OTA–4, Adjustment Proposal.

(5) OTA–5, Certification of Adjustment Proposal.

(6) OTA–6, Certification of Eligibility for Tax Assistance.

(b) Copies of all necessary forms, and instructions for their preparation and filing, may be obtained upon request from the Office of Trade Adjustment Assistance, Department of Commerce, Washington, D.C. 20230, or from any Field Office of the Department.

§ 500.61 **Submissions.**

(a) *Applications.* Forms and related material, including communications, with respect thereto, in connection with (1) applications for certification of eligibility to apply for adjustment assistance, (2) applications for adjustment assistance and (3) adjustment proposals under this part, should be submitted, in triplicate, to the Director, Office of Trade Adjustment Assistance, Department of Commerce, Washington, D.C. 20230.

(b) *Petitions for reconsideration and appeals.* See § 500.62(b)(2) and (c)(4), respectively.

(c) *Other communications.* In order to expedite attention to inquiries or other correspondence concerning matters relevant to or arising in connection with the provisions of this part, persons initiating such communications are urged to direct them in the first instance to OTAA.

(d) *Due date.* (1) Applications for certification of eligibility to apply for adjustment assistance under section 302(b)(1) of the Act, and applications for adjustment assistance under section 311 of the Act are subject to statutory filing deadlines. The Secretary may, in appropriate circumstances, condition acceptance of other submissions upon timely filing on or before a specified date. (2) Except as provided in §§ 500.43(b) and 500.62(a)(3), submissions received by mail are deemed filed on the date postmarked on the envelope in which they are mailed. Submissions delivered directly are deemed filed when received.

(e) *Extensions of time.* With respect to any submission, other than a petition for reconsideration or an appeal under § 500.62, concerning which a date has been established for receipt by the Secretary or his delegate and submission on or before such date is a condition precedent to its acceptance as timely filed, application for extension of time may be made to OTAA. Such application must be received by OTAA prior to the time such submission is due, and must contain a statement of reason for inability to comply with the required filing date. An extension of time will be given for good cause shown.

§ 500.62 **Reconsideration and appeals.**

This section sets forth the procedures applicable to: Petitions for reconsideration of administrative actions and appeals to the Secretary from certain delegated administrative actions and from decisions on petitions for reconsideration.

(a) *General provisions.* (1) The term "administrative action" means with respect to any person, (i) a decision with respect to certification of eligibility to apply for adjustment assistance, or (ii) a decision upon an application for adjustment assistance, or (iii) any action taken specifically with respect to such person pursuant to the exercise of a discretionary power by the Secretary or his delegate in accordance with any provision of this part. The term "administrative action" does not include an opinion or ruling interpreting these regulations, or a decision upon a petition for reconsideration or upon an appeal.

(2) Notice of an administrative action or of a decision upon a petition for reconsideration or upon an appeal shall be deemed to have been given on the date when mailed or delivered directly to the petitioner or appellant: *Provided*, That notice of an administrative action taken prior to the effective date of this section shall be deemed to have been given on such effective date.

(3) A petition for reconsideration or an appeal shall be deemed filed on the date received by the addressee.

(4) Any person may withdraw a petition for reconsideration or an appeal at any time prior to the date a decision is rendered thereon.

(b) *Petition for reconsideration.* Any person may petition the official who has taken an administrative action under this part with respect to such person for reconsideration of such action unless such person has previously appealed the same or a related administrative action to the Secretary and such appeal is then pending or a decision has been rendered thereon. The filing of a petition for reconsideration shall not suspend or stay the effect of the administrative action of which reconsideration is sought unless the Secretary, in his discretion, so orders.

(1) *Form of petitions.* An original and five copies of the petition for reconsideration and all supporting documents shall be submitted. The petition shall enclose a copy of the administrative action of which reconsideration is asked, and shall state the grounds upon which the petition is based and the relief requested. All facts and argument in support of the petition shall be separately identified and set forth in detail.

(2) *Filing.* A petition for reconsideration of an administrative action shall be filed not later than 20 days after notice of the administrative action is given to the petitioner. It shall be addressed to the official who took the action of which reconsideration is sought, in care of the U.S. Department of Commerce, Washington, D.C. 20230. If a petition is withdrawn, the time which has elapsed since notice of the administrative action was given to the petitioner shall not be counted as part of the time allowed for appeal. Requests for extension of time within which to file petitions for reconsideration may be granted in the discretion of the official who took the action of which reconsideration is to be sought.

(3) *Decisions.* The official who took the action of which reconsideration is sought may dismiss the petition or may grant or deny the petition in whole or in part, or may modify all or part of the administrative action under reconsideration. Written notice of the decision shall be given to the petitioner.

(c) *Appeals.* Any person may appeal in writing to the Secretary with respect to a decision by another official of the Department on the ground that the administrative action (including a decision on a petition for reconsideration) with respect to such person was based on legal or factual error or was arbitrary. An appeal may not be filed if such person has previously filed a petition for reconsideration respecting the same or a related administrative action and no decision has been rendered thereon and the petition has not been withdrawn. The filing of an appeal shall not suspend or stay the effect of the administrative action or decision on the

petition for reconsideration under appeal unless the Secretary, in his discretion, so orders.

(1) *Form of appeals.* An original and three copies of the appeal and all supporting documents shall be submitted. If the submission of three copies of all accompanying documents or exhibits would place an undue burden on the petitioner, waiver of this rule may be requested at the time the appeal is filed. The appeal shall enclose a copy of the administrative action or decision on the petition for reconsideration from which appeal is made, and shall state the particulars upon which the appeal is based and the relief requested. All facts and arguments in support of the appeal shall be separately identified and set forth in detail. The appellant may request the Director, in writing, to transmit to the Secretary the documentation originally submitted to OTAA.

(2) *Filing.* Appeals shall be filed with the Secretary not later than 30 days after notice of the administrative action or decision on the petition for reconsideration has been given to the appellant. Requests for extensions of time within which to file appeals may be granted in the discretion of the Secretary. Appeals shall be addressed to the Secretary, U.S. Department of Commerce, Washington, D.C. 20230.

(3) *Oral presentations.* The Secretary may, in his discretion, request an appellant to make an oral presentation at a time and place designated.

(4) *Decisions.* The Secretary may dismiss, grant or deny the appeal in whole or in part or modify all or part of the administrative action or decision on the petition for reconsideration under appeal. Written notice of the Secretary's decision shall be furnished to the appellant and shall constitute final Departmental action.

§ 500.63 Public access to information.

Completed Forms OTA-1, OTA-3, OTA-4, or any other completed forms filed with OTAA, applications and requests from applicants, petitions for reconsideration, appeals, materials submitted therewith, and decisions thereon are considered to be matters covered by 5 U.S.C. 552(b). Other information, records, and material in the possession of OTAA, if required by 5 U.S.C. 552 to be made available to the public, shall be available in accordance with the provisions of Part 4, Subtitle A of this title.

Subpart G—Investigation and Audit; Penalties

§ 500.70 Investigation and audit.

(a) The Secretary may, through any person or agency, investigate any matter relevant to or any violation of the provisions of this part, regardless of whether any report has been required or filed in connection therewith.

(b) The Secretary, through any person or agency, shall have access for the purpose of audit and examination to any records, receipts and documents (as defined in § 500.50(d)) in the possession of a firm that is receiving or has received adjustment assistance under this part, or in the possession of any other person or firm, pertaining to or relevant to such adjustment assistance.

§ 500.71 Penalties.

(a) Attention is directed to 19 U.S.C. section 1919, which provides in connection with adjustment assistance to firms that:

> Whoever makes a false statement of a material fact knowing it to be false, or knowingly fails to disclose a material fact, or whoever willfully overvalues any security, for the purpose of influencing in any way the action of the Secretary of Commerce * * *, or for the purpose of obtaining money, property, or anything of value * * *, shall be fined not more than $5,000 or imprisoned for not more than 2 years, or both.

(b) Attention is also directed to 18 U.S.C. section 1001, which provides that:

> Whoever, in any matter within the jurisdiction of any department or agency of the United States knowingly and willfully falsifies, conceals, or covers up by any trick, scheme or device a material fact, or makes any false, fictitious, or fraudulent statements, or representations, or makes or uses any false writing or document knowing the same to contain any false, fictitious or fraudulent statement or entry, shall be fined not more than $10,000 or imprisoned not more than 5 years or both.

(c) Failure by a firm to maintain or cause to be maintained records or make reports required under Subpart E of this Part shall be grounds for suspension or termination of adjustment assistance. This provision shall constitute an integral part of any certification by the Secretary of an adjustment proposal, whether or not expressly incorporated therein.

§ 500.72 Effect on lenders.

Any person who in good faith lends money or extends credit to a firm that is receiving or has received adjustment assistance under this part and who does not have actual knowledge, when such loan is made or credit extended (or when a commitment is given to make the loan or extend the credit), that the use of the proceeds thereof, the repayment thereof or any other transaction in connection therewith will involve or constitute a violation by the firm of any provision of this part or of any license, ruling, regulation, order, direction, or instruction issued by or pursuant to the authorization or direction of the Secretary pursuant to this part or otherwise under § 500.71, may receive payment thereof (together with all interest and other fees and charges) and may otherwise participate in any other transaction in connection therewith, and such person's rights against the firm in connection with such loan or extension of credit shall not in any way be affected or impaired by reasons of the provisions of this part.

[FR Doc.72-7340 Filed 6-7-72;8:52 am]

APPENDIX 10

[From the Monthly Labor Review, April 1972]

EXCERPTS FROM PAPERS PRESENTED TO THE TWENTY-FOURTH ANNUAL MEETING OF THE INDUSTRIAL RELATIONS RESEARCH ASSOCIATION, DECEMBER 27–28, 1971

UNIONS, DEVALUATION, AND FOREIGN TRADE

[By George H. Hildebrand]

George H. Hildebrand, former Deputy Under Secretary of Labor for International Labor Affairs, is Maxwell M. Upson Professor of Economics and Industrial Relations at Cornell University and served as IRRA president during 1971. This excerpt was adapted from his presidential address, "Organized Labor and Foreign Trade."

As the unions see the matter, the early postwar case for liberalizing U.S. trade policy has long since disappeared. Our major trading partners have long ago made good their wartime losses, to become vigorous competitors today. For the past 15 years, American industry has been helping to make them competitive, by exporting capital in its own private version of the Marshall Plan, in search of cheaper labor. While the United States, the argument runs, continues to maintain the freest market of access in the world, these partners of ours have been busily closing their own borders to our products, through quotas, preference arrangements, border taxes, and other devices. In result, over the past half decade our industries that compete with imports have experienced a surge of inflowing products, bringing about plant closures, layoffs, and disappearance of formerly expanding job opportunities. At the same time, export sales have also been constricted.

In this welter of claims there is a measure of fact. Let us consider the implications of expanding foreign trade for domestic unionism.

Clearly, one of the primary incentives to U.S. firms for acquiring subsidiaries or for setting up branch manufacturing plants in countries such as Taiwan, South Korea, or Mexico is to take advantage of far lower labor costs. Also aiding this exodus are the tariff schedules of the United States, under which duty exemption is granted on the value of American materials contained in products imported from these plants. Wages are fantastically low in these locations. Even more important, man-hour productivity is relatively high. American management, technology, and equipment have proved able to maintain U.S. standards of labor efficiency, even when using relatively untrained and inexperienced local labor.

Moreover, in these lands a large supply of excess labor continues to be available indefinitely from the agricultural and artisan sectors. In the absence of intervention by the state or by trade unions, real wages will not rise for years to come even while manufacturing employment increases. The outflow of added capital from the industrial countries does not raise wages and unit labor costs, that is to say, it fails to induce a self-canceling equilibrating process that ultimately would check the rise in such imports. On the Mexican border, for example, the situation is found in unalloyed purity, even unto the exclusion of products from the Mexican market.

How serious is the problem? For 1966–69, the Department of Labor has estimated that increased imports involved displacement of 700,000 potential jobs that would have been required if the equivalent output had been produced domes-

tically. In the same period, export-related employment has risen by 200,000 persons. Thus it might be concluded that 500,000 job opportunities were lost, as the AFL–CIO has contended.

There are serious weaknesses in this line of argument. The 700,000 opportunities are phantom jobs, not real ones. They do not represent equivalent unemployed or available and employable persons. Hence they are not comparable with the 200,000 increase in persons actually employed in the export trades. Even more, this was a period of full employment: the only way that 700,000 persons could have been put to work to produce the equivalent for these imports would have been by diverting them from other jobs, with attendant loss of product in these other domestic fields. Obviously, the reason this diversion did not occur is that wages were better and workers more productive in these other fields.[1] Beyond these considerations, the putative transfer would have made an already serious inflation still worse, at the same time denying to consumers the added imports that they had revealed they had preferred at existing comparative prices and product standards.

From the standpoint of the national interest, so long as there was full employment the equivalent increase of imports implied by these 700,000 phantom jobs has significance only relative to the balance of payments. If it had not been in deficit at the time, the increased imports would have represented simply one way of disposing of the earnings of U.S. capital abroad. Increased foreign investment would have been another. By contrast, since the balance of payments was in deficit, the growth of these imports reflected inflation and increasing overevaluation of the dollar. One could say that the United States was failing to pay its way through net exports plus earnings of capital. Instead, it was using foreign credits to maintain an otherwise unsustainable rate of importation and consumption—credits provided interest-free through the dollar-pegging operations of the foreign central banks, under the Bretton Woods system.

Using Bureau of the Census trade data and Bureau of Labor Statistics input-output technical coefficients to estimate employment effects, Lawrence Krause and John Mathieson have found that 16,600 jobs were lost because of shifts in imports and exports between the first quarter of 1970 and that for 1971.[2] With a jump in unemployment of over 1.5 million persons in the same period, the estimated direct contribution of international trade to U.S. unemployment was barely 1 percent.

But the 16,600 is a net figure, obtained by estimating (1) direct job losses from decreased specific exports and increased specific imports (—182,200 persons); (2) direct job gains from specific increases in exports or decreases in imports (182,700 persons); and (3) indirect job losses and gains in supplier industries to the export and import-substitute trades (—17,100 persons). Behind these figures are some even more interesting ones: increased imports cost a direct job loss of 134,400 in domestic industries, with sharp impacts in basic steel, motor vehicles, electrical goods, and apparel and finished textiles. By contrast, increased exports directly created 181,400 jobs in the same period. However, when job losses are concentrated in certain industries or localities and when they occur in a context of rising general unemployment, then it becomes even more difficult to persuade people that trade still contributes to economic welfare.

Consider the position of a labor leader in an import-threatened industry. He heads an organization of individual sellers of labor services. The organization prospers or declines with the fortunes of its members, and they, in turn, with the domestic firms that employ them and with the continued ability of their union to control the relevant labor markets. The union's orientation is to its own members, while their mutual concern is for steady jobs, good wages and conditions, recognition of skills and experience, and ties to the local community.

Foreign trade both benefits and threatens these interests because it widens the area of effective competition, both for workers and their products. As always, the benefits are less obvious than the costs: high-wage jobs for making exports are tacitly accepted, while imports are often painful enough to cause reflection. As we know, trade can wipe out significant numbers of jobs, on occasion undermining whole communities. In such circumstances, no union can be expected to

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[1] See Sanford Rose, "U.S. Foreign Trade: There's No Need to Panic," *Fortune*, August 1971, 109 ff.

[2] Lawrence B. Krause, assisted by John Mathieson, "How Much of Current Unemployment Did We Import?," *Brookings Papers on Economic Activity*, No. 2 (1971), pp. 417–428.

be a partisan for open markets, for to be such would be to undercut the very basis for its existence. Thus there is a natural and understandable chain of logic that starts from a primary concern for the interests of incumbent workers as producers. If those interests become adversely affected by a surge of imports—or in an export industry by direct investment overseas to develop substitute sources for domestic production—then the logic of job protection leads directly to demands for quotas, for higher tariffs, and for restraints upon export of capital and technology.

Such pressures cannot be turned aside by a showing that open markets would add to the economic welfare of the United States even if the rest of the world were staunchly protectionist, granted that the showing can readily be made. The special interests of workers as *producers*, not as consumers, are not necessarily well-served by a policy of liberalized trade.[3] As producer-oriented organizations, the unions well understand this. Their basic problems are the relative immobility of labor as compared with capital; the promotion and protection of the interests of their members; and the difficulty of extending the effective zone of bargaining power to overseas locations.

Devaluations of important currencies such as the pound and the franc helped bring about some overvaluation of the dollar well before 1965, simply because they reduced the export prices of British and French goods relative to competing American products both within the United States and in third markets. But the effects were minor: the chief factor in overvaluation was the sustained domestic inflation that set in with 1965, followed within a year by a sharp uptrend in unit labor costs. For over 6 years, U.S. exports and import substitutes experienced a growing competitive disadvantage. The firms that produced these goods, and their employees, were being whipsawed by internal inflation and the system of fixed exchange rates.

The consequences were painful. In some particularly vulnerable situations, workers lost their jobs and plants were closed down. In the most sensitive industries, the growth of job opportunities slowed down or turned negative. Less obvious but more important, direct private U.S. investment abroad began to grow rapidly. To be sure, the export of private capital in part was for the traditional purpose of developing lower-cost extractive resources overseas, or was induced to enable American firms to get over foreign barriers against their exports. However, the grounds are good for believing that the major influence at this time was the growing attractiveness of markedly lower unit labor costs in manufacturing abroad, particularly in certain of the developing countries.

Although domestic inflation and its underlying causes are generally considered as the basic source of the trouble, the contribution of Bretton Woods arrangements should not be overlooked. Under a system of fixed exchange rates, a currency can be overvalued or undervalued for some time without compelling a change in parities. If the case is one of overvaluation, then the Nation's exports are too high in price, while its imports are too cheap. This has been an increasingly acute U.S. problem over the last 7 years. Under Bretton Woods, the dollar was given a special tie to gold while other currencies were pegged to the dollar. Because the dollar was made "as good as gold" for purposes of official convertibility, it could serve as a reserve currency for other countries, incidentally helping us to finance a 20-year string of payments deficits. But there was another side to the coin: by reason of this "special position" of the dollar, the United States in effect gave up the right to alter the external value of its currency. By contrast, the rules did accord this right to other members. Each was free to peg or to change the dollar value of its own currency, in this manner to control the dollar prices of its exports to and imports from the United States.

By holding the dollar to the established parity, the dollar prices of exports to the United States could be made cheaper and cheaper relative to domestic substitutes—hence the massive invasion of certain U.S. markets. At the same time, the relative prices of U.S. exports could go higher and higher for the same reason.

On the external side, the official actions of last August 15 presaged an end to this. When the President slammed the gold window shut, the external value of the dollar now had to depend upon the exchange market, together with whatever interventions the foreign central banks cared to make. They could buy up surplus

[3] International trade necessarily produces gains or it would not occur. However, it does not follow that completely free trade would make these gains optimal.

dollars to hold the old fixed parity. Or they could let the dollar float downwards until it found an equilibrium price, inducing our partners to deveolp a desire to negotiate a new set of rates.

Effective devaluation of the dollar means, first, a reduction in the prices of our exports, and a corresponding increase in the prices of imports. Both will aid home employment. Second, it means that the advantage to American industry of going abroad in pursuit of foreign wage differentials will also be reduced. The effect for home employment is more complex but probably will be positive for the near term. Given these advantages from devaluation, together with a more realistic approach to adjustment assistance for workers displaced from their jobs by increased imports, the pressures for quotas and other restrictions should lose force. In short, the dollar reform, together with other measures, provides the equitable compromise mentioned earlier, that between job protection on the one side and community access to the advantages of foreign trade on the other.

APPENDIX 11

Statement of Willis C. Armstrong, Assistant Secretary of State for Economic Affairs

Adjustment Assistance Measures of Some Other Nations

JAPAN

Evaluation of adjustment assistance efforts by Japan must take account of the fact that that country presently benefits enormously from a large proportion of comparatively newly installed machinery and equipment. This resulted more from post-war reconstruction than an economic adjustment assistance program. It is all the same true that, compared with pre-wartime, change is a highly characteristic feature of the modernized Japanese economy. Admittedly, change is facilitated enormously when unemployment rates remain low and economic growth maintains the rates they have in Japan for the past couple of decades. Under these circumstances, special forms of trade adjustment assistance are not urgently required.

In this respect it is essential to emphasize that what is being referred to are special forms of *trade* adjustment assistance. The Japanese Government traditionally has played a major role in industrial policy matters, but it has done so on a much broader basis than simply encouraging trade adjustment.

Japanese import trade, moreover, has been affected by a broad range of restrictions that were kept in effect longer than was good for the healthy development of world trade and the nation's long-range economic well being. Under these circumstances industry, with few exceptions, was not in a position to make calls upon the government for special forms of trade adjustment assistance. The Japanese Government recently has moved to reduce import controls for a fairly large number of products, but trade adjustment assistance has not been advocated in Japan in connection with these actions.

Small business in Japan has received special attention, though a *trade* adjustment assistance program, *per se*, has not been put to use in even this instance. Assistance under the Small Enterprise Modernization-Promotion Law takes the form of loans and tax deferment to firms that can demonstrate that they are endeavoring, often on the basis of governmental guidance, to become more productive and thus are contributing toward reaching the industry-by-industry modernization targets set by the Government. The firms involved are encouraged to install more modern machinery, merge into larger units, engage in cooperative production or marketing arrangements, or introduce better management, marketing or production techniques.

Aside from this undertaking, the major industry in Japan for which there has been developed what might possibly be called a trade adjustment assistance program has involved textiles. After encouraging the widespread establishment of small producing units by this industry following World War II, partly by effectively protecting them from many of the forces of competition even at home, it was realized by the late 1950's that the industry was beset by inefficiency and was being hurt by outside competition and by synthetics.

The Textile Equipment and Other Temporary Measures Law of 1964 was designed to put a large portion of the nation's spindles into mothballs. As it became apparent that to increase efficiency more would be required than reducing the number of operating spindles, other measures were sought. The "Provisional Act for Structural Reorganization of Specified Elements of the Textile Industry" emerged in 1967. It aimed at modernizing the industry by replacing equipment and merging production units. TIRA, the Textile Industry Reorganization Agency, was established to buy up and scrap obsolete equipment and to assist in financing new equipment. Mergers were encouraged in part through financial incentives. One interesting arrangement in the spinning sector

is the so-called Rationalization Group, as part of which member firms retain corporate independence while combining marketing efforts and coordinating production to achieve economics of scale. According to some reports, firms joining such groups have their taxes waived or reduced for a certain period of time and are afforded priority access to low-interest, long-term credits by the Japan Development Bank. While only a small portion of Japan's textile firms belong to a Rationalization Group, it is reported that those which do have demonstrated impressive improvements in efficiency.

The weaving sector in Japan was even more fragmented and was characterized by production units much smaller than in the spinning sector. Rather than attempt to merge these units or form rationalization groups, the Government required all weaving firms to form regional cooperatives. Each cooperative undertook, with the assistance of MITI, the Ministry for International Trade and Industry, its own rationalization program.

Following the recent man-made fibers export restraint agreement, the Government of Japan announced a 200 billion yen program to encourage further adjustment assistance efforts by this industry.

EUROPEAN COMMUNITY

The European Community has focused attention on anticipated problems of nations adjusting to a common market. An overall industrial plan for the EC has not yet been adopted, but the Community now has programs in force designed to supplement the efforts of member states in attempts to minimize the social and economic costs to workers that may be associated with economic integration.

A sectoral approach is also being proposed; the first proposal involves the textile sector. It would integrate social and regional as well as industrial policy considerations. Priority is intended to be given, according to reports, to forecasting and averting troubles rather than waiting to perform a cure after they have arisen.

The overall program foresees action at three points. The first and most important is forecasting. Various instruments were proposed in the textile sector, and will be proposed in the other sectors, which will enable the industries involved to anticipate problems, opportunities and adjustments required. The second element of the program consists in helping industries confronted with change to reconvert and restructure themselves. The goals are (1) to keep industries viable. (2) to keep workers employed, and (3) to keep individual regions economically healthy. The third element of the program is to offer direct assistance to industries having burdens of development and modernization they cannot bear alone.

A European Investment Bank, established in 1958, has as its primary function industrial development in high unemployment regions within the Community. It finances infrastructure projects and company investment undertakings which are considered likely to increase employment.

The European Social Fund, which has so far been little used, reimburses public institutions in member states for up to 50 percent of their occupational retraining and resettlement expenses. Finally, the European Coal and Steel Community (ECSC), whose purpose is to rationalize these industries, makes loans directly to coal and steel companies for modernization and rationalization projects which may be considered part of the community-wide integrated scheme of rationalization. They are not used, by the way, to assist or support individual firms on the grounds that they have been injured by the rationalization effort. The Fund does not aid coal and steel firms to switch to other endeavors, but it does help displaced coal and steel workers find new employment. It will also provide "conversion loans" to finance the construction or expansion of other industrial plants in regions where coal and steel facilities are closed down.

There is also a possibility that national programs will in the future be harmonized as proposed in the Colonna Plan for Industrial Rationalization. The costs and benefits would then be spread across the entire Common Market.

GERMANY

Looking at some individual countries of Europe, in Germany structural adjustment is one of the more important objectives of industrial policy. The German Government maintains a growing array of programs to assist industry and labor

in adjusting to changed circumstances, though it operates only a relatively small program that in part takes the form of assisting trade adjustment.

As with the case of Japan, the problem of adjustment has been eased greatly for Germany by conditions of vigorous economic growth and over-employment. The industrial structural policy of the German Government at present is focused primarily on industries which promise rapid future growth but which appear to the Government to require some initial governmental assistance. These include aerospace, nuclear energy and electronic computers.

The industries in Germany that have been experiencing problems in adjusting to change are generally the older ones, especially those with a high proportion of smaller firms. In this area the government is attempting to spur research and development and to encourage the formation of larger firms.

Tax incentives are offered to induce smaller and medium-sized companies to merge into more efficiently-sized units, and the income tax law offers special tax write-offs of up to 50 percent on plant and equipment used for research and development purposes. The latter provision has been supplemented with a subsidy amounting to 10 percent of new investment in research and development facilities. The subsidy was added to spur R & D efforts on the part of firms whose profits were too small to benefit from the special tax write-offs. In addition, the Government provides direct subsidies to joint research groups formed by small companies that cannot afford their own research laboratories or staffs.

Technical assistance is provided by the German Productivity Center (Rationalisierungs-Kuratorium der Deutschen Wirtschaft—RKW), which operates on a budget of about $2.5 million per year, most of which comes from the dues of member companies, and some from the federal government. The RKW provides firms with information and advice about plant rationalization, modernization, mergers, joint research, procurement, or marketing efforts among groups of firms; and other technical and managerial aspects pertinent to restructuring. It also researches and tests new rationalization measures, trains industrial advisors, and acts as a rationalization consultant to individual firms or groups of firms. Its work is intended primarily for the smaller and medium-sized firms.

The only thing which approaches what possibly might be considered a *trade* adjustment assistance program, as such, is one of providing subsidized loans to firms in industries undergoing substantial structural changes. The objective of the program is to assist smaller and medium-sized companies in switching their production to products in which they can be more competitive—whether in the same or a different industry.

The loans are granted for the purpose of replacing the "essential parts" of the company's existing plant and equipment, and companies applying for the loans must demonstrate that they have an economically-feasible plan involving a "substantial change" in the products produced. Applications for these loans, at least some of which are financed by the European Recovery Program Special Fund, are forwarded to the Government through the company's bank—which is required to comment on the viability of the company and the company's plan.

Loans are normally limited to about $270,000; interest rates run around five percent a year. Maturity periods extend up to twelve years, including up to five years of grace. Most of the loans have been extended to companies in the textile and shipbuilding industries.

Low-cost loans, grants, and tax subsidies are also available through programs intended to spur economic growth in what are considered to be underdeveloped regions of the country. The intent of these regional assistance programs is to provide employment for displaced workers, rather than to assist the companies affected by structural change. The focus is job creation, therefore, not firm relief.

FRANCE

The French Government also provides little or nothing that is directly identifiable as *trade* adjustment assistance, though it makes extensive efforts to encourage the development of what it considers are promising sectors of the economy. The French effort might be classified as largely structural assistance.

Imports, of course, have played an important role in spurring changes in the French economy since the formation of EEC. Not only has the elimination of internal Community tariffs removed much of the protection to which French firms had become accustomed, but it also has opened a much enlarged market to them. In this situation, it was considered by the French Government that the tradition

of producing high proportion of industrial products in small enterprises had become highly uneconomic.

The primary objective of French adjustment assistance is to facilitate the productive reemployment of workers displaced by structural change. To this end, the French Government operates a number of programs to retrain and relocate workers. French industry tends to be clustered geographically and the unemployment stemming from industries in structural decline thus tends to become a regional problem. A sizeable portion of the Government's adjustment assistance efforts have been aimed at developing new industries in regions with high unemployment.

Second priority in adjustment assistance in France goes to industries undergoing what the Government determines to be structural change. The intent of this assistance is to aid the particular industry improve its competitive ability; the focus is on the industry *per se*—not on the individual companies comprising the industry. The assistance is individually-devised *ad hoc* for each industry and situation.

The Fond de Development Economique et Social (FDES), the Economic and Social Development Fund, established in 1955, plays the central role in most governmental adjustment assistance efforts, extending some $400-450 million a year to industry for adjustment projects, and serving as the government's coordinator for adjustment assistance. Fifteen to twenty year loans with subsidized interest rates designed for the "conversion, decentralization, adjustment, specialization, and concentration of undertakings," usually in implementation of the National Plan, are channeled to firms through government-owned financial institutions (Credit National). The Fund also administers the "industrial adjustment premium," the purpose of which is the creation of new jobs in regions facing a decline in their traditional industries. The premium consists of grants of up to around $2,500 or 25 percent of the plant and equipment costs for each job they will create for firms opening, expanding or converting plants in designated regions. In 1967 the Fund disbursed approximately $5.6 million to 43 companies for this purpose.

Smaller firms also can obtain assistance in the form of loans at roughly commercial rates and some management advice from the Societes de Development Regional (SDR), the Regional Development Corporation. These private corporations operate without subsidy, except for official guarantees of their bond issues.

Substantial tax assistance is also provided. Companies creating, expanding or converting plants in development areas are allowed (with FDES approval) to take an extraordinary depreciation allowance of 25 percent of the cost of new buildings. They may also receive a reduction in real estate transfer taxes and may be exempted from license fees for a five year period.

When the French steel industry encountered difficulties in the mid-1960's it worked out with the Government, after prolonged consultations, a four and a half year plan for restructuring itself, including a large number of enterprise amalgamations. Basic steel and specialty steel producers were concentrated into two geographically-delineated groups. Efforts were made to coordinate production plans and schedules within the groups, inefficient units were closed, and some new facilities were put under joint-venture operation. The industry was required to implement programs of job training and assistance to displaced workers.

The cost of the program was put at $2 billion. The actual outlays are not available, but the Government committed itself to providing $540 million in 35-year, 4 percent (3 percent for the first five years) loans to the industry to cover part of the investment costs. It also guaranteed that the industry would be able to borrow at least $120 million a year during the program period. The industry, we understand, was to finance $400 million on its own through equity increase and self-financing. More than 40 mills were closed in the process and the industry is now much more concentrated than before. During 1966–69, according to available data, the industry's output rose 15 percent, employment fell 15 percent and output per manhour rose 35 percent.

Consolidation was also the basic thrust of the French Government's seven-year effort to assist its shipbuilding industry beginning in 1960. A White Paper issued at the time called for reducing the number of shipyards from 14 to 4, completely modernizing facilities and a drop from 40 thousand to 27 thousand workers. It was hoped to reemploy discharged workers in new undertakings at the old sites (a program which did not prove successful) and through retaining. While

shipbuilding subsidies were cut, long-term loans were provided for financing consolidation and modernization.

The program encountered numerous difficulties throughout its implementation, but by 1969 the industry was down to six large shipyards and these were now equipped with modern equipment. Between 1960 and 1969 the industry's production rose over 60 percent, subsidies per ton were down by about one-third, employment was also down by slightly more than a third, and output per worker doubled. In this period France rose from sixth to fourth position among shipbuilding countries.

The French textile industry has faced economic difficulties for several years. Some financial aid is provided to help in the scrapping of old machinery and buying new, and in directing workers to new employment, but the effort remains quite modest.

ITALY

Italy also does little by way of purely *trade* adjustment assistance. Its aids to industry have for the most part been of a general developmental character applied across-the-board to nearly all industries. Particular attention, of course, has been focused on Italy's southern areas.

The principal tools put to use are subsidized credits and tax incentives. The most significant industry adjustment assistance program of any sizeable dimension planned for Italy is expected to involve textiles, and to include the encouragement of mergers. It is too early, however, to evaluate the undertaking.

SWEDEN

In Sweden assistance in adjusting to structural change is an important aspect of industrial policy, but again there are no Government measures designed specifically to assist in adjusting to import competition.

Full employment is the single most important economic objective in Sweden, and the principal task of adjustment assistance is to ensure the re-employment of workers affected by structural change. The nation's comprehensive program of avoiding unemployment to the maximum extent possible includes, aside from macro-economic policies, an advance warning system of company layoffs, vocational training, emergency public works programs, the extension of temporary government procurement orders to affected firms, nation-wide placement offices, workshops for aged workers, travel allowances, resettlement allowances, family allowances, and programs for purchasing the vacated houses of resettled workers.

There is little by way of adjustment assistance for firms, though at times the government has taken limited measures to provide some relief to large industrial sectors. The Swedish Investment Bank, for example, does make loans through the commercial banking system to foster some industrial modernization and merger actions. The textile industry, in particular, has benefited from such financing. Small enterprises also get limited special help.

UNITED KINGDOM

The United Kingdom, a large trading nation, similarly treats the need for import related economic adjustment much the same as that for any form of structural difficulty. The Government's goal in brief is to foster industrial modernization throughout the country with special attention given to helping less-developed regions to attract newer industries, fostering the growth of technology-intensive industries, and increasing the occupational mobility of labor.

Encouragement of industrial development and diversification in designated regions prior to October 1970 had been accomplished through grants for construction, grants and loans toward partial coverage of start-up costs, worker training programs, the provision of weekly employment premiums for each employee hired, and investment grants covering 40 percent of a company's expenditures on new plant and equipment. Outside of these regions the new plant and equipment grant amounted to 20 percent. Total costs of these grants ran around $1.5 billion per year.

In October 1970 the Government changed the system, substituting tax allowances in place of cash investment grants. Under the tax allowance system, firms were permitted to write off 60 percent of their new plant and equipment expenses in the first year in which they were incurred. Firms in "developed areas" were allowed to write off plant and equipment expenditures fully during the first year.

In March of this year the Government extended the first-year 100 percent depreciation allowance to all investment in plant and machinery. For industrial buildings the rate of initial allowance for new buildings is 40 percent.

To assist in the structural adjustment of industries in which market forces alone are considered inadequate to bring about rapid or sufficiently extensive reorganization of composing units, the British Government in 1966 established an independent Industrial Reorganization Corporation (IRC) with power to draw on financial resources of up to £150 million as a source of advice and "last resort" financial assistance. Its financial terms were flexible, and its assistance was sometimes in the form of equity participation. IRC was not expected to maximize short-term profits, but it was expected to obtain a "commercial return" over the long-term. The Corporation was abolished by the Conservative Government last year.

The major industries receiving special adjustment attention in the UK at present are textiles, shipbuilding and coal. The British textile industry, as is generally known, has been in long-term decline since the early 1900's, and throughout this period the Government has sought ways to assist the industry in adjusting to changing circumstances. The latest program was launched at the end of the 1960's. The Industrial Reorganization Corporation, when it was in existence, made up to $60 million in loans available at commercial rates to smaller and medium-sized cotton textile firms for constructing and equipping new plants, for the complete modernization of old plants and for mergers or joint activities. No loans were made for individual machines or for the partial modernization of plants. Previous efforts to encourage the scrapping of old machinery have been discontinued. Structural reform of the industry is progressing—our latest information indicates that four vertically-integrated firms now account for 47 percent of the country's spinning production and 33 percent of the weaving production. It is impossible to predict whether the industry is finally on its way to becoming much more competitive in this field of production.

In the case of the British shipbuilding industry the Government in 1967 accepted recommendations of a Shipbuilding Inquiry Committee and established a Shipbuilding Industry Board to encourage the amalgamation of shipbuilding firms into groups and to provide financial assistance for grouping and new equipment. The Board made available $360 thousand (at the then existing rate of exchange) to cover management consulting fees incurred in preparing merger plans, $48 million in grants to cover reorganization and amalgamation expenses, and $78 million in loans toward the purchase of new equipment by firms combining their activities. (The Board went out of existence at the end of 1971.)

The program resulted in substantial reorganization of the industry. Six of the largest shipbuilding firms and combined operations and eight others were absorbed into two groups. Heavy marine diesel production has been concentrated in four firms, which now account for 80 percent of the production.

In addition to such industry oriented development assistance the United Kingdom also relies on general manpower training programs to meet the needs of individuals as well as those of industry. One such effort has been made under the Industrial Training Act of 1964. Under the provisions of this program there are now 27 Industrial Training Boards in Britain with responsibilities which cover 15 million workers. They raise about £200 million a year by levies on employers, over 90 percent of which is paid back to employers in grants toward approved training.

CANADA

Finally, Canada operates a range of programs and institutions devised to speed general industrial development. Though not designed especially for the purpose of furnishing trade adjustment assistance, these efforts may sometimes be used to advantage by import-impacted firms. The measures include (but are not limited to):

(1) the Industrial Development Bank (IDB), which provides medium and long-term financing for the modernization of smaller firms. The IDB extends credit only when companies cannot obtain financing from private sources on reasonable terms and conditions;

(2) the Program for the Advancement of Industry Technology (PAIT), which provides grants for up to 50 percent of the costs of approved company research and development; and

(3) a variety of regional development programs offering tax and financial

incentives to attract and expand industry in Canada's less-developed regions. (Provincial programs in most cases complement federal incentives.)

In addition to these general measures, Canada operates two programs specifically for the purpose of providing trade adjustment assistance. These are the Automotive Adjustment Assistance Program and the General Adjustment Assistance Program.

The Automotive Adjustment Assistance Program was initiated in 1956 to assist automotive firms and workers in adjusting to changes resulting from the U.S.-Canadian Automotive Agreement. Assistance to workers is provided only in cases of job displacement. Assistance to companies, however, is offered in cases of import injury *or* export opportunity arising from the Auto Agreement. The Program's regulations stipulate that assistance to firms may be provided if:

(1) the eligible manufacturer would not be able without additional investment to achieve the scale of output required to operate viably under the changed conditions of production resulting from the Auto Agreement; or if

(2) the overall production of an eligible manufacturer is, or will be, reduced to a substantial extent as a result of the Auto Agreement—whether the production is diverted to a U.S. company or to a motor vehicle manufacturer in Canada (generally U.S. subsidiaries).

The objective of the Assistance Program, which is administered by the Automotive Adjustment Assistance Board, is to enable companies which need to shift production to obtain the funds needed for re-equipping and rationalizing their plants. The Program only provides assistance to eligible manufacturers who can demonstrate to the Board's satisfaction that they have proposals with a reasonable prospect of profitable operation for which they cannot obtain financing from other sources. The eligibility regulations are carefully worded to exclude larger companies and foreign-owned subsidiaries.

The assistance provided by the Program is in the form of long-term loans, with maturities of up to 20 years for plant and 10 years for equipment. The loans carry an interest rate two percentage points above the "Crown Corporation" rate. In the latter part of 1969, for example, the interest being charged for Program loans was 10$\frac{7}{16}$ percent. A cumulative total of 88 loans amounting to $75 million had been issued under the program through the end of 1970. Most of the loans have been made for equipment, with the average loan being about $900,000 and extending nine years.

The Program appears to have succeeded in enabling smaller companies to alter their structure and production to compete in a changed and more open market. The Program has been twice extended by the Canadian Government and is estimated to have accounted for an increase in annual production increment of $150 million and to have provided 3,800 new jobs.

A General Adjustment Assistance Program (GAAP) was initiated by Canada in 1968 designed to assist companies and workers affected by tariff changes resulting from the Kennedy Round. Like the Automotive Adjustment Assistance Program, the GAAP can assist in cases of injury *or* opportunity. To qualify, firms must either: (1) have been seriously injured, or threatened with serious injury, as a result of import increases stemming from Canadian Kennedy Round tariff reductions; or (2) have significant export opportunities arising from tariff concessions granted to Canada in the Kennedy Round.

The Program is administered by a seven-man "General Adjustment Assistance Board," the Chairman and two other members of which are from the private sector. Research and staff assistance is provided by the Department of Industry, Trade and Commerce. Companies seeking assistance must present to the Board comprehensive plans involving a restructuring of operations necessary to improve their competitive positions. The Board must feel the plans to be sound and must be convinced that the company cannot obtain sufficient financing on reasonable terms from other sources.

Three forms of assistance are available under the program:

(1) loan *guarantees* covering 90 percent of the *unsecured* portion of loans from private sources, with a one percent per annum fee on the amount guaranteed.

(2) *grants* covering 50 percent of consultant's fees, for companies needing consultants to assist in developing viable proposals but for whom the cost of consultants would be a significant burden.

(3) direct *loans* to companies which have been, or are threatened with,

serious injury as a result of the Kennedy Round tariff reductions and who are unable to obtain financing from other sources even with a Government guarantee.

In practice, the GAAP has focused on assisting smaller companies in taking advantage of new export opportunities. The intent of the Government and of the Board appears to have been to focus on export opportunities and not to use the GAAP as a means of assisting or restructuring industries troubled by import competition.

Program usage has been far below the levels originally anticipated. The principal reason for the program's initial slow implementation was the strictness of the eligibility requirements. The regulations specify that either injury or opportunity must be directly linked to the Kennedy Round—a relationship that has been nearly impossible to prove. The Board has evidently been willing, in many cases, to view the existence of overseas tariff cuts and market demand as de facto evidence of opportunity; but it has been much more strict in its definition of domestic injury.

Increasing attention is now being given to industries suffering from import competition. The approach has become to establish small, specialized industry boards—backing them up with generalized staff assistance from the Department of Industry, Trade and Commerce.

The first industry for which a special import adjustment assistance program was devised was the textile and clothing industry—one in which imports a year before had a 45 percent share of the Canadian market. A thorough Government study of the industry was completed late in 1969, and a three-man "Textile and Clothing Board" was established in October 1970.

The general intent of the Board is to improve the industry's long-term ability to compete without additional import protection by steering productive resources out of less competitive lines and into more competitive product lines. When a complaint or import injury is initiated by a firm or trade association, the Board commences an investigation of injury. If injury is found, the Board calls for all companies in the affected sector to submit plans for upgrading their production from uncompetitive to more competitive lines.

The Board analyzes the plans for congruency with one another and determines whether, in the aggregate, they promise to increase the industry's ability to compete over the long run without additional import protection. If the Board is so convinced, it will recommend to the Minister of Industry, Trade and Commerce a program of adjustment assistance and/or special provisional import protection.

Provisional import protection is recommended only when the Board feels that the protection is needed to allow time for the firms' plans to be successfully implemented. The protection may not, in the words of the Bill, be granted "for the purpose of encouraging the maintenance of lines of production which have no prospect of becoming competitive with foreign goods." The special protection is terminated: (1) once the firms' plans have been implemented; or (2) if the industry fails to follow through with its plans according to the agreed-upon time schedule.

No new assistance measures were devised for the Board's use, but the GAAP was modified to make its benefits readily available to textile and closing firms whose plans are approved by the Board. The modifications, which took effect in January 1971, eliminated the need to establish any connection between import injury and Canadian tariff reductions. In addition to firms injured by Canadian Kennedy Round tariff reductions, GAAP *loans* are now available to, "a manufacturer of textile or clothing goods or footwear who requires a loan to adapt efficiently to competition from textile or clothing goods or footwear imported at such prices, in such quantities, or under such conditions as to cause or threaten serious injury" (a determination made by the Textile Clothing Board).

The eligibility requirements for GAAP loan guarantees are simpler. In addition to firms with injury or opportunity stemming from the Kennedy Round, they are now also available, "in the case of a manufacturer of textile or clothing goods or footwear which has submitted a comprehensive plan for restructuring its operations in order to improve its competitive position in the domestic or export market." These amendments, in effect, guarantee financial assistance to firms whose plans are approved by the Textile and Clothing Board. The Board presumably will also be able to recommend to the Minister the use of IDB assistance, regional development programs (the industry is heavily concentrated in Quebec Province), and other existing measures.

APPENDIX 12

Worker Petition for Adjustment Assistance [1]

Petition Requirements

The TEA of 1962 contains provisions which permit workers who feel that their unemployment or underemployment is a consequence of the importation of foreign products, to present a formal petition to the U.S. Tariff Commission. There is no preprinted form for such a petition, but petitioners are required by the Commission to provide the information outlined below. Explanatory comments follow the formal outline.

1. Petitions are addressed to: Secretary, U.S. Tariff Commission, Washington, D.C. 20436.

2. An original and 19 true copies of each document must be filed.

3. Petitions must begin with the words "This is a petition under Section 301(a) of the Trade Expansion Act of 1962 and Subpart D of Part 206 of the Rules of Practice and Procedure of the United States Tariff Commission."

4. A petition must be filed by a group of three or more workers or their union or certified representative.

5. Information supporting the petition must include concrete information in support of petitioning workers' claim that, as a result in major part of concessions granted under trade agreements, an article like or directly competitive with an article produced by the petitioning workers' firm, or an appropriate subdivision thereof, is being imported into the United States in such increased quantities as to cause, or threaten to cause, unemployment or underemployment of a significant number or proportion of the workers of such firm or subdivision. In particular, supporting information of the following character shall be included:

(*a*) Identification of the product concerned. This must include a precise definition or description of the article—size, price range (specify wholesale or retail), manufacturing process, component materials, etc. The TSUS number (import classification number for tariff purposes) must also be included;

(*b*) The name and location of the workers' firm;

(*c*) The total number of establishments (all articles) operated by the workers' firm and their locations, identifying the separate establishment(s), if any, in which the named or described domestic article is produced;

(*d*) Import data forming the basis of the claim that the named or described foreign article is being imported in increased quantities;

(*e*) A statement of the basis of the claim that the increased imports resulted from trade agreement concessions;

(*f*) Data on production and sales by the workers' firm as a whole of the named or described domestic article, by quantity and value, during each of the five most recent full years;

(*g*) Data for each of the five most recent full years showing:

(1) the value of total sales of all articles produced—

i. By the firm as a whole; and

ii. By each separate establishment, if any, in which the named or described domestic article is produced.

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[1] This petition process is applicable only for workers from firms in an industry for which there has been no industry-wide finding of import-generated injury and consequent authorization by the President for adjustment assistance to that industry's firms and workers. When such a finding and authorization have been made, workers may file for adjustment assistance directly with the Labor Department on Form–ES–928, "Request of Worker Groups for Certification of Eligibility to Apply for Worker Adjustment Assistance Under the Trade Expansion Act of 1962" which may be obtained from local Employment Security Offices.

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(2) the average number of production workers employed
i. by the firm as a whole,
ii. by each of the separate establishments, if any, in which the named or described domestic article is produced, and
iii. in the production of the named or described domestic article only;

(h) Enumeration and description of the factors believed to be causing or threatening unemployment or underemployment in the workers' firm or subdivision thereof; and

(i) A statement regarding the extent to which increased imports of the named or described foreign article are believed to be such a factor.

The petition should also contain information on the approximate number of workers affected by imports and when their unemployment or underemployment began.

The petitioners should notify the company of the workers' intention to file. If they find that some of the data called for by the Commission, such as that on production and sales of the firm (see "f" and "g" above) are not available to them, they should try to get the firm's commitment to cooperate with the Commission by supplying such data on a confidential basis. In any event, the petition should include the name, address and telephone number of one of the firm officials. Similarly, it should specify the name, address and telephone number of a union or worker representative who can be contacted for additional information.

Information concerning the petition process, as well as the TSUS number involved, import data and tariff concessions, may be obtained from: Director, Office of Foreign Economic Policy, Room 7102, U.S. Department of Labor, 14th Street & Constitution Avenue, N.W., Washington, D.C. 20210. Telephone (202) 961–5297.

NOTE: The workers, by whom or on whose behalf the petition is filed, must be or have been *within one year prior to the date of the petition* employed by the designated firm in the manufacture of the described product.

APPENDIX 13

Excerpts From Opening Speech of President Leonard Woodcock, 23d UAW Constitutional Convention, Atlantic City, N.J.

Yesterday we had two leading figures of the world labor movement with us. Brother Shioji left this morning from New York to return to Tokyo. The fact that he would come from Tokyo to visit us here and back again in the space of three days shows the tenacity of his determination. It is quite obvious that an essential way to meet the import problem has to be the development of a world labor organization. It is the only way in which we can match the growing strength of the multi-nation corporations. These multi-nation companies aren't American companies or British companies or Japanese companies; they are companies without any national allegiance. As a matter of fact, the head of the Dow Chemical Company proposed that they should be called a-national Companies, companies without a nation, and that they should be allowed to base themselves in the Bermudas or the Bahamas or someplace where they could escape all tax responsibility to any nation in the world. We have to find some way to meet this growing threat.

Of course we are sorely troubled by trade developments. I hope this convention will agree that tariffs and quotas in and of themselves are not an answer to the problems that we face. In the depression years, the United States tried that answer. The Congress enacted the Smoot-Hawley tariff in 1931. We shot up the tariff barriers surrounding our country to very great heights. We kept out foreign goods, and in so doing we throttled world trade. We made the world depression deeper and more widespread. We helped give rise to Hitler, which immediately produced World War II.

It is not a fact that we are losing our place in the export market of the world. If you take the period from 1960 through 1971, non-agricultural exports of the United States increased by 20.3 billions of dollars, up by 131 percent. If you take the very bad period of 1965 to 1971 when our country was in two recessions and we were plagued by the Vietnam-caused inflation, we increased our exports by 14.9 billion dollars, or up by 71 percent.

Of course, imports were also rising. We have a great job stake in the export industry. There are people sitting on the floor of this convention who have a great job stake in the export industry of this country.

But we do need reforms. These international corporations must be restrained; they must be restrained by law in their countries of origin and in the countries in which they operate. There has to be a license for capital export. A company should have to show that when it proposes to export capital, which means exporting jobs, that that export is in the national interest of the United States and if they are given a license because that export is in the national interest of the United States, then by that very same token workers who are affected by that job loss have to be protected by their government.

We have to have economic-sustaining benefits, relocation benefits, retraining benefits paid for by the government in that same national interest. They did it with the railroads when they took the passenger service away from the railroads and created Amtrak. They guaranteed those workers against job loss with full pay for up to six years. That principle makes sense.

We have to tax profits when they are made by American companies when those profits are made and not simply when they are brought back home. There has to be a competition promotion tax so that when a U.S. company makes a deal overseas not to compete back home in its own market, it has to be taxed against its higher profits to give it an incentive to compete back in the home market. There have to be criminal penalties against the managers of these international corporations when they speculate against the American dollar and betray the national interest.

We do need tariffs to prevent market disruption. In the bearings industry, many workers are in our own union and have been almost displaced overnight by foreign competition; there has to be tariffs to allow the processes to develop naturally so that the burden does not go on the workers there involved.

We have to demand of our government proper negotiations to prevent dumping of foreign products at lower costs, to prevent lower prices in our market than those products sell for in the markets of the countries where they are produced. We have to continue to negotiate with these other countries for fair trade because if we do have fair trade and we do have properly aligned currencies we still can hold our own in the markets of the world.

But above all we have to create a full employment economy in the United States and Canada.

There is no automobile producing country in the world, with the exception of Japan, that does not have a greater percentage of imports than does the United States and even Canada. But when it happens in these other countries it is not the problem that it is here, because in these other countries they have full employment economies, and if a worker loses a job by virtue of an import, he has little trouble—she has little trouble—finding another job equally good in the same industry or in some other industry. If these other countries can do it, then so can we.

The worst unemployment rate Sweden has had ever since the war was three per cent. They consider that a national disaster. If we got back to three per cent we would think we had done a great deal. We can have a full employment economy with profitable policies followed by the United States and followed by Canada.

Now, how do we build a full employment economy in the United States? Well, first of all, are we going to accept five percent as a permanent rate of unemployment?

When we came out of World War II, full employment was supposed to be measured by a two per cent rate. Then after a couple of recessions, well, they said, that is too tough an objective; they made it three per cent. Then in the early Kennedy years, well, temporarily we'll accept four per cent as the goal. Now we are being told because there are more women in the work forces; there are more teenagers in the work force; we now have to accept five per cent as the mark of full employment. That is a counsel of despair. That is a counsel of a country which has said we have failed in our mission.

APPENDIX 14

Adjustment Assistance

(By Stanley D. Metzger*)

I. Origins of Adjustment Assistance

The weakness of the "escape clause" as a remedy for individual firms and groups of workers adversely affected by imports

It was made clear at the outset of the Trade Agreement program in 1934 that the program's purpose was to assist American industry and agriculture, not to cause it serious injury. The Hull policy of freeing trade from artificial barriers was meant to expand international trade and thus benefit firms, workers, farmers and the general public, but in so doing to take into account, meaningfully, the interests of domestic industries which might face serious import competition as a a result of the lowered trade barriers envisaged as a consequence of the program's operations.

The 1934 Act thus required that the President consult with those Government Departments which habitually speak for particular domestic industries that might be affected adversely by tariff and other trade concessions (Agriculture, Interior, Commerce, Labor, and (then) War and Navy) before any reductions in United States tariffs were negotiated. There was immediately established the inter-agency Trade Agreements Committee (composed of those agencies and chaired by the State Department) one of whose principal tasks was to undertake a precautionary review before a trade agreement was entered into, for the purpose of avoiding making concessions which in the official judgment of those most knowledgeable would likely result in serious injury to the domestic industry producing a like or directly competitive article. This review included an opportunity for industries affected by forthcoming negotiations (notice of which, including a description of the article likely to be the subject of U.S. concessions, had been made) to appear and present orally and in writing their views both as to what the United States should and what it should not be prepared to offer by way of tariff concessions. This precautionary review was later codified legislatively, and made more restrictive, in Section 3 of the Trade Agreements Extension Act of 1951 (the "peril points" provisions). Still later, the 1962 Act eliminated "peril points" as such, but the review continued to operate in the same manner as it had since 1934.

Industries concerned about injury from imports were nonetheless dissatisfied with it. They feared that despite advance precautions, trade agreement concessions once negotiated might be followed by an increase in imports caused by the concession, and the domestic industry caused, or threatened with, serious injury because of such increased imports. Accordingly, following the urgings of their Congressional spokesmen, an "escape clause" was inserted at United States request in the bilateral agreement with Mexico in 1942, specifically permitting the withdrawal of a concession under those circumstances.

Following the enactment of the 1945 Trade Agreements Extension Act and while preparations were being made for the negotiation of the General Agreement on Tariffs and Trade, including the first major multilateral tariff reduction negotiation, it became necessary for the Administration, in the words of former Secretary Acheson (*Present at the Creation* (1969), 200–201) to accept "some restrictions on executive power to reduce tariffs" in order to "save what we could of the trade-agreements program" from the ministrations of Senators Milliken and Vandenburg. President Truman issued an Executive Order (No. 9832) requiring that an "escape clause" be inserted in all future trade agreements.

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Article XIX of the GATT contains the escape clause principle, which reads as follows:

"If as a result of unforeseen developments and of the effect of the obligations incurred by a contracting party under this agreement, including tariff concessions, any product is being imported into the territory of that contracting party in such increased quantities and under such conditions as to cause or threaten serious injury to domestic producers in that territory of like or directly competitive products, the contracting party shall be free, in respect of such product, and to the extent and for such time as may be necessary to prevent or remedy such injury to suspend the obligation in whole or in part or to withdraw or modify the concession."

The 1947 Executive order established a procedure pursuant to which the President would decide in any case whether to invoke the "escape clause" of a trade agreement (either the GATT or one of the remaining bilaterals which had been amended to include escape clauses). This American domestic procedure was later codified in Section 7 of the 1951 Act, which remained in effect, with relatively minor legislative modifications, until a major revision was made in the 1962 Act.

Under Section 7 of the 1951 Act, a domestic industry could apply to the Tariff Commission—

"to determine whether any product is, as a result in whole or in part of the duty or other customs treatment, reflecting such concession, being imported into the United States in such increased quantities, either actual or relative, as to cause or threaten serious injury to the domestic industry producing like or directly competitive products.

"Your committee is persuaded that provisions for adjustment assistance should not be continued as a discretionary alternative action for the President in place of tariff adjustment action where the Tariff Commission has made an affirmative injury and remedy determination after an industry investigation."

The Tariff Commission, within six months, had to report to the President its findings and its recommendations. If it found that such injury had been caused or threatened, it was to recommend the tariff or quota relief necessary to remedy the injury—tariff relief being limited to a rate 50% above the rate existing on July 1, 1934. The President could accept or reject the findings and recommendation of the Commission in whole or in part; if he failed to agree with the Commission, he had to report to the Congress the reason why. The Congress, by a concurrent resolution adopted by a two-thirds majority of both houses, which was procedurally "privileged," might overturn his negative action, thereby causing the Commission's recommendation to be put into effect. This latter never occurred. The President could, of course, utilize whatever legislative authority there might be to assist the affected industry and its workers, and not accept the Tariff Commission's report and recommendations. In fact, he had done so in some cases. But the thrust of the escape clause procedure under the 1951 Act, until 1962, was tariff and quota relief, with no special injury-relief tools of other kinds available to the President.

The 1962 Act wrought extensive changes in the escape clause which were designed to make the tariff and quota relief available to domestic industries more difficult to obtain.[1] The basic reason for this step were the adverse economic consequences which had been seen during the 1950's to have ensued whenever escape clause actions were contemplated or taken. As the House Ways and Means Committee noted in its 1962 Report on the legislation (No. 1818, 87th Cong., 2d Sess. 13), "The granting of tariff adjustments in particular cases necessarily had an impact on our total foreign economic policy." Such action "necessitates the granting of tariff compensation to our trading partners on other products in order to counterbalance whatever United States tariffs are raised," or evolves the retaliation of others through withdrawal of concessions which had been accorded to the United States, thus affecting adversely the American export trade.

Nor were the economic consequences the only adverse results of easy escape clause relief. Four years earlier, in 1958, the House Ways and Means Committee had emphasized that, "Escapes from international obligations authorized by the Congress in return for reciprocal obligations should not be lightly permitted." Contrary to those protectionists who wanted to deprive the President of discre-

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[1] The manner in which this was accomplished, principally through tightening of the causation criteria between the concession increased imports and serious injury, is described in Metzger, *Trade Agreements and the Kennedy Round* (1964) at 44–55.

tion to refuse to accept a Tariff Commission inquiry finding, the Committee concluded that "the President must continue to have discretion in escape clause cases because their effect on foreign relations and other aspects of the national interest may outweigh the benefit to a particular industry." The Committee had been quite aware that any escape clause action looms much larger, politically and economically, to trading partners of the United States than it appears to us. It knew that when President Eisenhower had refused to take action in the Icelandic fish fillets case, the political repercussions contemplated were action to have been taken (with adverse consequences upon American retention of air bases) played a major role in his decision. It was also aware of the political tremors which occurred when escape action was taken on Swiss watches. Our friends and allies in Europe indeed were alarmed at the way in which a large country could act in seeming disregard of the economic consequences to a smaller country. During the 1947–62 period, the Tariff Commission had found injury in 33 cases, and split evenly in 8 more. The President had refused to invoke the escape clause in 26 of the 41 cases referred to him.

It is thus clear that a major weakness of the escape clause as a relief mechanism for individual firms and workers in an industry (an industry that could make a good case under it which could show that it was imports that were really causing injury, and not the myriad other reasons for industrial decline) was the inhibition upon its use which was a necessary consequence of the position of the United States as the largest industrial nation in the world and as the leading nation of a world-wide coalition designed to maintain the political freedom and factor the economic development of its members.

A second major weakness of the escape clause for individual firms and groups of workers was the fact that before industry-wide relief (raising of tariffs, imposition of quotas) could be secured, serious industry-wide injury, caused by concession-fed increased imports, had to be shown. Many firms, and groups of workers within them, might be seriously adversely affected by such imports yet receive no relief because the industry of which they were members as a whole was performing satisfactorily despite such increased imports. Average prices, wages, profits, sales volume, new investment—the normal indications of industrial health or sickness—might indicate no major discomfort, even though things might of course have been even better without imports. In those circumstances, neither the industry as a whole nor any component of it was eligible for the industry-wide relief provided by the escape clause; the "marginal" firms and workers in the industry were left unprovided for.

Finally, escape clause remedies were not tailored to the needs of import impacted individual firms or groups of workers. These remedies, temporary tariff increases or quota restraints, might well fail to meet the problems of such firms and workers even if their industry as a whole secured escape clause relief.

The firm which was marginal might be expected to find difficulty securing new capital in order to achieve adjustment to new lines in the same or a related industry in view of both the temporary nature of the escape clause relief [2] and the doubts about its survival as a marginal firm even with such relief; it is likely that such relief even when given, will for the reasons already adverted to, be somewhat less than the maximum desired by an industry to shelter its most marginal members. The firm may also not know in which direction to shift its resources and not be in a position to find out at reasonable expense during the temporary period of partial relief afforded by the escape clause remedies.

Workers in such firms needed (1) training for new skills to be performed in a firm which was shifting to new lines, or to make themselves marketable independent of such a firm if it could not make the adjustment, (2) time (and unemployment compensation during that time if the firm shut down temporarily or altogether), and (3) relocation expenses to place themselves with new enterprises, if necessary. None of these benefits, or tools of adjustment, were available under the traditional escape clause remedies. The escape clause remedies were both inadequate for many individual firms and groups of workers and too upsetting of foreign relations if used more than sparingly. It was clear that something new was needed to remedy these weaknesses of the escape clause if the United States was to continue a liberal trade program designed to expand, rather than contract, international trade and at the same time avoid injury to important domestic economic interests.

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[2] Under the 1962 Act there must be termination of relief in four years unless a fresh Presidential determination to continue is made.

THE EFFORT TO SECURE LABOR AND SMALL BUSINESS COMMITMENTS TO EXPANDED INTERNATIONAL TRADE IN THE TRADE EXPANSION ACT OF 1962

The weaknesses of the escape clause were perceived early in the 1950's. The Randall Commission on Foreign Economic Policy noted in its 1954 report the proposal of David McDonald, then President of the United Steelworkers of America, for adjustment assistance for workers in the form of extended unemployment compensation and retraining and relocation benefits, and bills were introduced that year in both House and Senate (then Senator John Kennedy introduced the first Senate bill) incorporating these conceptions. Indeed, for the next eight years, adjustment assistance bills for workers were regularly dropped in the Congressional hopper but no hearings were held on them, nor any serious consideration given them in the 1955 or 1958 trade agreement extension act deliberations in the Congress. The Administration did not adopt the idea until 1962.

There were a number of interacting reasons for the adoption of the adjustment assistance conception in 1962. The Administration was determined to secure major new tariff reduction authority from the Congress in order to make a substantial tariff bargain with the European Economic Community, lowering the Common External Tariff of the EEC so as to preserve the large American export market in Europe. It sought 50% reduction authority—far more than had been sought in the period between 1945 and 1962.

At the same time, the Administration had been made aware of the uneasiness of the Europeans about the instability of tariff concessions once negotiated arising from the operations of the escape clause, and of their consequent reluctance to engage in substantial new negotiations without greater assurances that there would be tighter controls over these trade restrictive measures (quotas and tariffs)—which were the only remedies then available were the escape clause invoked. As earlier noted, while the President had turned down Tariff Commission findings and recommendations in 26 out of 41 cases, he had nonetheless over the years found favorably in the 15 cases. Moreover, the fact that the Commission had interpreted the 1951 Act so that an increase in imports any time after a Tariff concession was conclusively presumed to result "in whole or in part" from the concession, signified to the Europeans that the connection between the operation of the escape clause and its original object—to authorize an "escape" from an injury-causing trade agreement commitment—had become formal rather than real.

In consequence, it was apparent that the Administration had to seek a tightening of the escape clause in the 1962 legislation which would cut back its potential use and create more safeguards that, if used, it would be truly temporary in duration.

It was also quite clear to the Administration that neither of these objectives—substantial new tariff-reduction authority and tightening of the escape clause—could be obtained without some relief measures being made available which overcame the weaknesses of the escape clause remedies which have been described.

Adjustment Assistance to firms and workers was the apparent answer, and the Administration put it forward. By utilizing a variety of domestic economic means to ease the lot of firms and workers who might be impacted by imports, adjustment assistance avoided the foreign relations pitfalls of the escape clause's tariff and quota relief measures. By dealing directly with the adjustment problems of firms and workers regardless whether the industry of which they were a part was suffering serious injury attributable to concession-fed imports, adjustment assistance avoided the no-man's land in which individual firms and workers sometimes found themselves. Adjustment assistance to small firms and groups of workers in consequence promised to offer to them relief which appeared to be substantive, a net gain over what had been available to them theoretically under the escape clause. That their support for the 1962 legislation, or at least a diminution of their opposition to it, was secured through adoption of the adjustment assistance concept, cannot be considered to be an insignificant factor in the Administration's 1962 action.

Having once adopted the idea, however, there were divided counsels as to the degree in which it should be embraced. These were caused in part by the lack of experience here or elsewhere concerning its possible cost. While studies had indicated that the employment impact of increased trade was very moderate indeed,[3]

[3] See, for example, *Import Liberalization and Employment*, by Salant and Vaccara (1960).

they had been based on models from the early 1950's. So too, the observed extremely light effects of the entire trade agreements program, in terms of loss of jobs, had been based upon earlier and smaller incremental amounts of trade than might be envisaged from a large tariff bargain among the fully recovered and developed economies of Western Europe and the United States. Accordingly, as might be expected, the Treasury Department leaned in the direction of tight criteria for adjustment assistance, principally for budgetary reasons, while the Labor Department desired to see such assistance made available with a minimum of difficulty.

In addition, there was some concern about treating worker displacement because of imports on a plane different from that of displacement for other impersonal reasons, such as shifts in production from the Northeastern to the Southeastern part of the United States. While special treatment (retirement benefits, unemployment compensation, etc.), had been provided in the past to certain groups of workers, such as railway employees, this had been closely related to the special nature of the industries involved, not to the general economic factors which might possibly be isolated as the cause of the industry's discomfort. Similar concerns relating to firms, together with the lack of preparatory thinking and studies affecting them, other than the aids available generally through the Small Business Administration, were reflected in the adjustment assistance benefits accorded by the legislation to firms.

These tensions concerning the nature of adjustment assistance affected the answer to two basic questions: (1) To what extent should adjustment assistance be conditioned upon a showing of close connections (a) between injury and the trade agreements program, or even (b) between injury and imports generally, apart from trade agreements concessions, and (2) To what extent should adjustment assistance benefits be superior to those available under general legislation applicable to firms and workers impacted by impersonal economic forces. An Administration which was not very clear on the proper answers to these questions, and a Congress which was understandably cautious about a first effort at a new program concerning whose wisdom they sensed Administration doubts and added those of its own, combined to provide, in the Trade Expansion Act of 1962, concrete answers to these questions. To these must be added the supplemental answers provided by the administration of the adjustment assistance provisions of the Act.

It is to an analysis of these provisions, and this administrative experience, that we now turn. That analysis in turn, should indicate the weaknesses in the adjustment assistance program and point the way to appropriate reforms.

II. Existing Provisions for Adjustment Assistance for Firms and Workers

Procedural requirements—eligibility of workers and firms

Adjustment assistance procedures, for firms and workers, begin with a petition for a "determination of eligibility to apply for adjustment assistance" filed with the Tariff Commission by a firm, or by a group of workers or their certified or recognized union or other duly authorized representative. Such a petition may be filed independently, or together with a petition for "tariff adjustment" (escape clause relief).

If the Tariff Commission finds that the industry has been injured, under the Act's criteria for escape relief, the President may act by either providing tariff relief, or providing, respecting such industry, that firms may request the Secretary of Commerce for certification of eligibility to apply for adjustment assistance, or that workers may request such certifications of the Secretary of Labor, or take any combination of such actions.

If the President takes such action, then the Secretaries of Commerce and Labor, respectively, must certify as eligible to apply for adjustment assistance any firm or group of workers in such an industry upon a showing to his satisfaction that the increased imports which the Tariff Commission has determined to result from concessions granted under trade agreements have caused serious injury or threat thereof to such firm or group of workers.

If the Tariff Commission fails to find that the industry has been injured, where petitions for both tariff adjustment and adjustment assistance have been filed, or if only a petition for adjustment assistance has been filed, the President may still certify such firm or group of workers to be eligible to apply for adjustment assistance if the Commission has found that "as a result in major part of concessions granted under trade agreements, an article like or directly competitive with an article produced by the firm (or such worker's firm) "is being imported into the United States in such increased quantities as to cause or threaten to cause,

serious injury" to such firms, or unemployment or underemployment of a significant number or proportion of the workers of such firm subdivision. While the Tariff Commission has six months to make its determination and report on "tariff adjustment," as it has had under prior law to make escape clause reports, the Commission must report its determination of eligibility to apply for adjustment assistance "not later than 60 days after the date on which the petition is filed."

This interrelated and complex procedure was caused in large part by two somewhat inconsistent legislative determinations: (1) a requirement that there be a showing of a real causal connection between concession-engendered imports and injury to firms or workers where their industries were not injured as a whole, or where the industry as a whole was injured but not each firm within it; and (2) a determination that adjustment assistance to firms and workers be made available within a relatively short period of time, for otherwise in Lord Keynes' famous phrase, "in the long run, we'll all be dead." Congress had decided that adjustment assistance was more appropriate than tariff relief because it could be "specifically adapted to the individual requirements of those in an industry affected by imports" and because it avoided the adverse "impact on our total foreign economic policy" (H. Rept. No. 1818 p. 13). But it had reflected Administration uncertainties about the incidence of the new program by opting for its most conservative application in answering the first of the above noted basic questions (p. 13) in the sense of 1(a)—it tied adjustment assistance to a strong causal connection between a firm's or worker's injury and concession-engendered imports. And it underlined this extreme caution by tieing the forms of relief to the tightened escape clause causation criteria, which had been designed to make more difficult the extension of tariff relief.

This deliberate Congressional limitation upon eligibility to receive the new kinds of adjustment assistance to be made available was expressed in several ways. First, the same causation language in the section of the bill reported by the House Ways and Means Committee and passed by the House relating to "tariff relief" was applied equally in those sections relating to adjustment assistance to firms and workers; the Senate Committee, in changing this stautory language (adding "in major part," and "the major factor"), also did so identically for both tariff relief and for adjustment assistance to firms and workers. Secondly the House Ways and Means Committee specifically stated, in its Report on the Bill, that it believed that it was "important that adjustment assistance in all instances be given only where it has been concluded that the conditions requiring assistance were caused by increased imports resulting from tariff concessions made under trade agreements." (H. Rept. No. 1818. p. 23).

The parallelism thus disclosed led the Tariff Commission to conclude, not long after the enactment of the 1962 Act, in the Cotton Sheeting Workers case, (T.C. Publ. 100, July 1963), that the "statute allows no room for any different interpretation or application" of the causation criteria for adjustment assistance as compared with tariff relief.

This meant that before adjustment assistance could be provided, the firm or workers had to show that (1) trade agreement concessions were the major cause (the cause more important than any other single cause) of increased imports, and (2) that such increased imports were the major cause of injury, i.e., unemployment or underemployment, or lowered prices, profits, etc., to the firm or workers involved. In concrete terms, this meant that from 1962 until November 1969, the Commission had decided 26 cases of adjustment assistance, six filed by workers, seven by firms and 13 by industries, and had made no affirmative findings of eligibility.

While beginning in 1968, some Tariff Commissioners questioned the necessity for identity of treatment as between adjustment assistance and tariff relief cases so far as connection with the trade agreements program is concerned, and during the last half of 1969 and early 1970 some closely-divided, and curiously reasoned cases departed from the Cotton Sheeting Workers doctrine, recent cases have indicated a clear split in the present 4-member Commission, and hence great uncertainty as to its future guidelines.

Indeed, the very choice if the Tariff Commission to determine eligibility in adjustment assistance cases along with its task of making findings and recommendations in escape clause cases meant that it was in substantial degree inevitable that that Commission would act in substantially parallel fashion in both types of cases. With statutory causation language the same in both types of cases, any Commission would become concerned at charges of discrimination were they to be applied differently, and those Commissioners who were especially concerned that the tighter escape clause of the 1962 act not be weakened would be more apt to apply the adjustment assistance criteria literally than to take a chance that an easy interpretation might also carry over to the escape clause whose criteria were identically worded.

At all events, it seems clear from the 1962 Act and its application that fresh Congressional action redefining eligibility criteria and changing the decision-making process in adjustment assistance cases is needed if a consistent application of easier eligibility criteria for adjustment assistance is to be achieved.

SUBSTANTIVE BENEFITS FOR WORKERS

Workers deemed eligible to apply for adjustment assistance may receive several forms of assistance: (1) readjustment allowances—a weekly cash allowance intended to supplement regular unemployment compensation and to be generally available for 52 weeks of unemployment; (2) training for vocational readjustment—failure without good cause to take training to which the worker is referred will terminate his readjustment allowances; and (3) relocation allowances, for workers unable to obtain suitable local employment, to cover the cost of moving the family to an area where a job is available.

Trade readjustment allowances.—The cash allowances under the Act are paid only for weeks of unemployment beginning not earlier than 31 days after enactment of the Act and after the date determined as the beginning of the import-caused unemployment problem. The separation itself must occur after the beginning date but within two years of a certification that workers of the firm or subdivision are eligible for worker assistance. This two-year period can be shortened by a Presidential determination.

A week of unemployment is a week in which the worker earns less than 75 percent of his average weekly wage and either works in the adversely affected employment for less than 80 percent of the average hours, or, if he has been totally separated from the adversely affected employment and is working at some other job, is not working on a full-time basis.

To be eligible for trade readjustment allowances, the worker must have been separated due to lack of work in an adversely affected employment; that is, in a firm or subdivision with respect to which there has been a certification of worker eligibility. This test of separation due to lack of work is stricter than under State law. A worker who leaves his job voluntarily may be eligible for State unemployment insurance if he had good cause but he would not be eligible for trade readjustment allowances if he left voluntarily no matter how good the cause.

To be entitled for trade readjustment allowances, a worker must have had substantial employment over the three years immediately preceding his separation from adversely affected employment. He must have earned wages of $15 or more in at least one-half the weeks of these three years and, in the 52 weeks preceding his separation, he must have had 26 weeks of employment, at wages of at least $15, in a firm or firms the workers of which have been found adversely affected by imports.

These employment requirements relating to entitlement to allowances are substantially stricter than those under the Manpower Development and Training Act of 1962 or under State unemployment insurance law. The Manpower Act requires only three years of gainful employment at any time in the worker's past. Of the 14 States where the unemployment insurance qualifying requirements are, or can be, expressed in terms of weeks or employment, none currently have a requirement of more than 20 weeks in a 52 week base period; 7 require less than 20 weeks and 7 require 20 weeks. (CCH Unemployment Insurance Rept. Para 4805).

Weekly amount of trade readjustment allowances.—The trade readjustment allowance for a week is 65 percent of the individual's average weekly wage but it cannot exceed 65 percent of the average weekly manufacturing wage. The individual's average weekly wage is determined on the basis of the so-called high quarter formula typical of most State unemployment compensation laws.

The maximum amount that can be paid to any worker for a week is 65 percent of the annual average weekly wage paid to production workers in manufacturing for the latest calendar year for which the figure has been published by the Bureau of Labor Statistics of the Department of Labor.

The worker's weekly allowance will be reduced by one-half of any remuneration that he receives for services performed during the week of unemployment. This formula gives him an incentive to find work.

The amount of the trade readjustment allowance is further limited by the requirement that the total amount that a worker receives as trade readjustment allowance, remuneration for services performed during the week, and unemployment insurance and training allowance under the Manpower Act or Area Redevelopment Act, cannot exceed 75 percent of his average weekly wage.

An adversely affected worker may receive his weekly trade readjustment allowance for those weeks during which he is attending training. The trade readjustment allowance would be in lieu of any training allowance he might receive under any other Federal law for worker training. If, under another Federal law for the training of workers, an adversely affected worker who is taking training could receive a higher weekly payment, his trade readjustment allowance for a week of training will be increased to such higher amount.

The Act provides that trade readjustment allowances will not duplicate benefits already available to the worker, but will merely supplement them, as necessary, to provide the designated level of weekly payments for a potential duration of 52 weeks in most cases. Moreover, a worker's trade readjustment allowance for a week is reduced by any unemployment insurance to which he is entitled for such week, whether or not he has filed a claim for the unemployment insurance. If, for any week in which the worker is not taking training, he is found ineligible for State unemployment insurance solely on account of his claim for a trade readjustment allowance, his trade readjustment allowance will be reduced as if he had received State benefits. With respect to a worker who is taking training, however, unemployment insurance for a week would be deducted from his trade readjustment allowance for that week only if the worker received the unemployment insurance.

The Act prevents a worker from obtaining duplicate benefits by first exhausting his entitlement to benefits under unemployment insurance or a Federal training law and then applying for trade readjustment allowances. The potential duration of trade readjustment allowances is reduced by the number of weeks for which the worker received such other benefits when he later files for a trade readjustment allowance. He is paid at that time the amount by which his trade readjustment allowance would have exceeded these other benefits for the prior weeks.

Time limit on trade readjustment allowances.—Under the Act, a worker may receive trade readjustment allowances for not more than 52 weeks, with two exceptions. A worker who is taking training may receive up to 26 additional weeks of allowances to assist him in completing his training. In view of the difficulty that older workers would have in finding jobs, a worker who was at least 60 years old when he was separated is entitled to 13 additional weeks if he remains unemployed, is available for work, and otherwise meets the requirements of the Act. No worker can receive both the additional 26 weeks and the additional 13 weeks.

The extra 26 weeks' duration for workers taking training will not encourage workers to put off training since a workers' referral to training is not within his control. If a worker refuses, without good cause, to accept training to which he may be referred early in the 52 week period, his allowance would be suspended.

The normal 52 week duration may be paid to a worker only for weeks of unemployment beginning within two years after the beginning of the appropriate week. The additional 26 or 13 weeks may be paid within three years. For a worker totally separated, the appropriate week is the week of his most recent total separation. For a worker partially separated, the appropriate week is the first week for which he received a trade readjustment allowance following his most recent partial separation.

Training.—The Act provides that every effort shall be made to return adversely affected workers to full employment through whatever testing, counseling, training, and placement services are available under any Federal law. If the training provided is not within commuting distance of the worker's residence, his transportation may be paid, at not more than ten cents a mile, and while at the training facility, he may be paid subsistence expenses not to exceed five dollars a day. These limitations are the same as those provided in the Manpower Development and Training Act. An individual who goes away for training and for any reason does not complete the course will receive transportation home. In determining "commuting distance" account will be taken of the established labor market area, patterns of place of work and place of residence, and usual community practice.

Insofar as practicable, preference is to be given to training arrangements which coordinate the training program for workers with the readjustment program of the employers. Such arrangements would afford the worker an opportunity to preserve his seniority and other rights and would afford the employer an opportunity to rehire or retain his work force. The training offered to any worker should take his desires into account.

Training is of such importance under the Act that trade readjustment allowances are denied to a worker who, without good cause, refuses to accept suitable

training to which he is referred, or fails to continue the course or to make satisfactory progress in it. The denial of allowances will continue until he accepts or resumes approved training.

Relocation allowances.—A relocation allowance is provided by the Act for a totally separated worker who is the head of a family to make it possible for him to take a job in another location if he has no reasonable prospects for suitable reemployment locally. A worker is a "head of a family" if he has dependents who would make the move with him.

A relocation allowance may be paid to a worker only if, for the week in which he applies for a relocation allowance, he is entitled to a trade readjustment allowance (or he would have been so entitled, except for certain circumstances, such as the fact that he has the new job, etc.).

A relocation allowance consists of both the reasonable and necessary expenses incurred in transporting the worker, his family and their household effects from their present location to that of the new job, and a lump-sum payment equivalent to two and one-half times the national average manufacturing wage.

The Act provides (as does the Manpower Training Act) that determinations as to the entitlement of individuals to assistance are final and conclusive, and subject to review, except as the Secretary of Labor may by regulation provide.

SUBSTANTIVE BENEFITS FOR FIRMS

As earlier indicated while the motive power for adjustment assistance was furnished by organized labor, some sentiment had also developed for special adjustment provisions for firms. Accordingly, the Administration put together and the Congress enacted a package which it hoped would prove to be an inducement to small business as well as labor to accept and perhaps support the continuation of a liberal trade policy.

The procedure which was established for securing adjustment assistance for firms was quite complex—even after there had been an eligibility determination, which had its own procedural difficulties. Following certification of eligibility to apply for the assistance, a firm may file its application with the Secretary of Commerce, indicating its need for assistance. It must then prepare and submit its adjustment proposal. Only after such a proposal is approved may the firm receive financial, technical, or tax assistance.

Adjustment proposals

The adjustment proposal must describe in some detail the nature and cost of the proposed adjustment effort, and the resources to be devoted to it from Federal and other sources. The firm may be furnished technical assistance in order to prepare an adequate adjustment proposal.

Adjustment proposals from firms applying for adjustment assistance are required to be certified by the Secretary of Commerce as: (1) giving reasonable assurance of contributing to successful adjustment; (2) giving adequate consideration to the interest of workers involved; and (3) assuring a maximum self-help effort by the firm. No financial or tax assistance and no further technical assistance may be given until the adjustment proposal has been certified.

It is recognized that there may be some firms for which adjustment assistance is inappropriate and which could not adjust to their difficulties in this way. Even though such firms may have been certified as eligible to apply for adjustment assistance, the Secretary of Commerce may not authorize assistance unless he is satisfied that it will be of practical benefit to the applicant. Adjustment assistance, in short, is not to be treated as indemnification of past loss, but as constructive aid for the rehabilitation of a commercial enterprise. Adjustment plans that permit the rehiring of workers laid off due to increased imports resulting from trade agreement concessions are to be preferred.

The Secretary of Commerce is required to submit each firm's certified adjustment proposal to whatever Federal agency or agencies he determines to be appropriate to furnish the financial and technical assistance necessary to carry out such proposal. Such agencies may include the Small Business Administration, the Departments of Agriculture and Interior and the Area Redevelopment Administration. Each such agency determines whether any part of the assistance called for by the proposal comes within the legal authority, regulations, and policies of the agency, and whether it is prepared to furnish such assistance out of its own appropriations. If the agency, for any reason, is not prepared to furnish any or all of the necessary assistance, it must promptly notify the Secretary of Commerce, who may then furnish such assistance as remains necessary to carry out the adjustment proposal.

Financial assistance.—Financial Assistance may be furnished for plant and equipment, including modernization and conversion and, in exceptional circumstances, for working capital.

Loans made or deferred participations taken up are to bear interest at a rate no lower than 4 percent. As late as May 1970, which was before any adjustment assistance to firms had been rendered, the Secretary of Commerce informed the House Ways and Means Committee that the actual rate would be between 7 and 8 percent, the cost of money borrowed by the Treasury. Loans made, guaranteed, or covered by deferred participation agreements may have maturities of no more than 25 years (with a possibility of a ten-year extension for orderly liquidation). Private loans may be guaranteed or covered by participation agreements only if they are made at a reasonable rate of interest. An interest ceiling is provided on the portion of any such loan guaranteed or covered. Guarantees and deferred participation agreements are to be limited to 90 percent of whatever portion of a loan is made for adjustment purposes.

No financial assistance is to be provided unless the Secretary of Commerce determines that there is reasonable assurance of repayment (although it is not necessary that collateral be required). Financial assistance is not to be furnished if it is otherwise available to the firm on reasonable terms from non-Federal sources.

Technical assistance.—Technical assistance may include such aids as managerial advice, market analyses, research in and development of new or existing techniques and products, and any other technical service that would help promote adjustment to import competition. Subject to the requirement to make use of existing Government agencies to the maximum extent practicable or appropriate in extending technical assistance, the Act authorizes provision of technical assistance through non-Federal sources, on a contract basis or otherwise; it was believed that certain types of technical assistance, such as management studies, might better be handled outside of the Government. A firm may be required to share the cost of technical assistance as appropriate.

Tax assistance.—The Act authorizes the Secretary of Commerce to certify eligibility for tax assistance when he determines that such assistance will materially help the firm to adjust and that the firm has sustained a loss which arise predominantly from a business seriously injured, in the loss year, due to increased imports resulting from a trade agreement concession. The existence and amount of such loss are to be determined under the Internal Revenue Code. This will permit a firm to carry back the loss for tax purposes two years beyond the three years normally allowed. A firm without sufficient profits for the three taxable years preceding the loss year to take full advantage of the present carryback provisions, may receive a refund out of taxes for the two additional preceding years. Under prior law, it would only be able to get a tax advantage of the loss against possible future income.

III. Deficiencies in Existing Law, Procedural and Substantive, for Firms and Workers (Including Deficiencies in Pending Legislative Proposals), and Suggested Remedies

Procedural deficiencies and proper remedies therefore

The long record of noneligibility of firms and workers for adjustment assistance between 1962 and 1969 convinced most people years ago that some relaxation was needed. Indeed, the almost uniform opinion to this effect—a rolling consensus such as is not often witnessed—is indicative that much more could have been essayed successfully in the direction of readily available adjustment assistance in the 1962 Act had there been a bit more boldness.

The major deficiency in the 1962 Act's eligibility criteria was in its insistence that adjustment assistance be tied tightly to the trade agreements program—its insistence that escape clause criteria, tightened to avoid excessive use of trade restraints, be applied to adjustment assistance, whose domestic relief measures eventuate in no such baneful results. By requiring that a trade agreement concession be the major cause of increased imports, and that such increased imports be the major cause of injury to firms or workers, the Act delivered a double-barreled blow to the hopes of labor and small business that adjustment assistance could be secured without making the camel go through the eye of a needle.

There was no foreign relations reasons for these limitations—they were based upon caution born of concern about costs of a new and experimental program. Unlike the escape clause, with its tariff and quota relief incident to an "escape" from—a derogation of—an international obligation, such as an agreement reducing tariffs reciprocally, there is no foreign relations need to limit adjustment

assistance to injury caused by concession-engendered increased imports. The relief afforded by Adjustment Assistance—domestic in nature—has no relationship to whether the increased imports occurred in consequence of a trade agreement, or of economic conditions independent thereof. The only reason for such a connection, then, must rest upon considerations of cost, or perhaps some unspoken reluctance to embrace fully the conception of adjustment assistance itself.

So far as the relationship between increased imports and injury is concerned, there is a much better general case for requiring some connection. After all, if none were required, there would be no logical basis for differentiation between workers displaced by imports and those displaced by a movement from Northeastern to Southeastern United States. Moreover, requiring a connection need not defeat the program, since there is no necessity for making it so tight that adjustment assistance will be available only if increased imports are the major cause of injury, as under present law. Other, less self-defeating formulae can be found; indeed some have been indentified in the years since the 1962 Act.

In the Automotive Products Trade Act of 1965 (P.L. 89–283), the Congress established eligibility requirements for adjustment assistance for firms and workers adversely affected by operations under the Agreement Concerning Automotive Products between the Government of the United States and the Government of Canada signed on January 16, 1965, which were considerably less rigorous than those set forth in the Trade Expansion Act of 1962. That Agreement required major American automobile manufacturers to increase markedly the production of vehicles by their Canadian subsidiaries, and it was believed by many that this would necessarily result in a substantial shift in production from the United States to Canada—which has in fact occurred. Adjustment assistance to workers, strongly urged by the United Automobile Workers of America, was permitted under much more relaxed standards. Thus, "if there is a decline in U.S. output of the product concerned and an adverse change (either by increased imports or decreased exports) in the flow of trade with Canada, a direct relationship between the dislocation and the operation of the agreement is presumed to exist, subject to being overcome only by a Presidential finding that the operation of the agreement has not been the primary factor in causing, or threatening to cause, the dislocation." [4]

Fourteen out of twenty-one petitions filed by groups of workers have been granted by a special Automotive Adjustment Board, covering 2,500 workers, following a Tariff Commission report of the facts concerning the firm or workers involved, with no "findings" or recommendations. No petitions by firms have been made. About four-fifths of the eligible workers received weekly payments totalling just under $4 million.

This record of assistance under the Automotive Agreement made organized labor ever more insistent that there be a general legislative change of the 1962 Act which would result in assistance being granted, not denied.

In early 1969, Special Representative for Trade Negotiations Roth issued a report, following advice from a broadly-based panel of businesssmen, representatives of labor and farm organizations, which recommended changes in the adjustment assistance provisions of the 1962 Act. Pointing out that adjustment assistance for both firms and workers had "proved to be equally unworkable," the Report proposed that the first branch of causation required to be met—that tariff concessions must be the major cause of increased imports—be eliminated completely. And the second branch of causation—that increased imports be the major cause of serious injury—was proposed to be changed so that increase imports need be only "a substantial cause of serious injury." (Report, p. 47). It refused to loosen this causation link to the extent that the Automotive Agreement had done.

The Roth Report further urged that an interagency board within the Executive Branch, following the pattern of the automotive board under the U.S.-Canadian agreement, rather than the Tariff Commission, should be responsible for applying the new test for adjustment assistance to workers and firms. This was partly because the Commission's record had been a negative one, but also in recognition of the somewhat anomalous position in which the Commission would be put in being asked to differentiate in recommending adjustment relief to firms and workers, and tariff relief to industries, on essentially the same set of facts and circumstances. For this is essentially a policy differentiation, and should be made by responsible policy officers of the Government, not by a fact-finding Commission. The Commission could continue to find the facts, as under the Automotive Products Trade Act of 1945. (Report, pp. 42–3).

Finally, the Roth Report proposed that adjustment assistance be made avail-

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[4] See Metzger, "The U.S.-Canada Automotive Products Agreement of 1965," 1 J. World Trade Law 103, 106 (1967).

able when potentially serious injury appeared, under flexible manpower programs involving better solutions than are now available to the problems of potential loss of pension and seniority rights which now reduces labor mobility; and that assistance be made available to separate units of multi-plant companies and to groups of workers in them, when the injury is substantial to the unit but not to the entire parent firm. (Report, pp. 44, 47).

The President's trade message of November 18, 1969, adopted and reaffirmed these recommendations of the Roth Report, pointing out that "direct aid to those individually injured should be more readily available than tariff relief for entire industries." The President emphasized that adjustment assistance "can be more closely targeted; it matches the relief to the damage; and it has no harmful side effects on overall trade policy." (White House Press Release, Nov. 18, 1969, p. 5).

The proposals for changes in the adjustment assistance provisions of the statute advanced by the Roth Report of January 1969 and by President Nixon in November 1969 remedy a number of the deficiencies in existing law relating to eligibility of firms and workers for such assistance. The cutting of the link to the trade agreements program, while retaining a link to increased imports, represents one important remedial innovation, and the relegation of the Tariff Commission to a pure fact-finding role, as in the Automotive Agreement, represents another. The Report and the message might have gone further, however, in the direction of modifying the second link by adopting a formulation based upon the one used in the Automotive Agreement legislation: an increase in imports coupled with domestic unemployment, loss of profits, etc. in the same line creating a rebuttable presumption, for Presidential overcoming, of the necessary connection for eligibility.

On August 13, 1970, the House Ways and Means Committee reported out favorably, by a 17–8 vote, H.R. 18970, the "Trade Act of 1970". As of this writing the fate of this variegated, "omnibus" act which amends not only the 1962 Trade Expansion but the Anti-Dumping Act, The Countervailing Duty Statute, and the Internal Revenue Code, is not known.

So far as Adjustment Assistance is concerned, it made five major changes in existing law, four of them designed to liberalize, or make easier, the securing of adjustment assistance. The first three sounded in terms of relaxed eligibility standards, and the fourth in increased substantive benefits. But the bill also made a fifth change which radically alters the conception upon which adjustment assistance is based, and thereby jeopardizes its very reason for being.

As anticipated in the Roth Report and President Nixon's Trade Message, the first causation requirement—that between the trade agreement concession and increased imports—was eliminated. Secondly, the second causation requirement of the 1962 Act—that such increased imports be "the major cause" of serious injury—was changed back to the pre-1962 escape clause formulation: increased imports must merely "contribute substantially", without being the major or primary cause, to such injury (Section 111(a) of H.R. 18970). Thirdly, the President, through any agency he may decide to utilize (for workers, presumably the Department of Labor, for firms the Department of Commerce), will receive the petition for adjustment assistance and decide eligibility after receiving a factual report from the Tariff Commission within sixty days after it is filed. This means that the Roth Report's and President Nixon's recommendation has been adopted.

These three changes should mean, if enacted into law in the future—whether as part of the present bill, or separately later if the present bill should founder on the shoals of the Senate, or of a Presidential veto or pocket-veto—that the eligibility pains of firms and workers would be largely alleviated. It is hardly conceivable that the President, or his designees, would find, in the face of this quite clear legislative direction, that there was no eligibility for adjustment assistance unless there was no preceivable cannection between imports and a domestic downturn in employment, profits, etc. of the petitioning concern or group of workers. The Congressional signal should be clear enough to solve the eligibility problem for some time to come.

The fourth change, increasing workers' benefits, will be described and discussed in the next section.

The fifth change portends grave difficulties. Under the 1962 Act, the President has discretion to provide adjustment assistance or tariff relief or nothing, when he receives an affirmative escape clause recommendation from the Tariff Commission. This was consonant with the idea that adjustment assistance would be utilized if feasible; tariff relief, causing the substantial international difficulties which all knew, was to be utilized only if adjustment through domestic measures appeared to be inadequate.

H.R. 18970 changes that conception, which is hardly surprising in view of the

general protectionist thread of the bill. As the Committee Report states (H. Rept. No. 91–1435, p. 32) :

"Your committe is persuaded that provision for adjustment assistance should not be continued as a discretionary alternative action for the President in place of tariff adjustment action where the Tariff Commission has made an affirmative injury and remedy determination after an industry investigation."

This turns completely around the concept upon which adjustment assistance was based. Adjustment assistance, under the bill, becomes a kind of "booby prize" to which firms and workers are relegated after they have tried—with very large chances of success—to curtail imports through bringing escape clause cases.

For as an examination of the bill's changes in the escape clause shows (see the paper entitled "Injury and Market Disruption from Imports"), its greatly relaxed standards for securing tariff relief in escape clause cases has been combined with its sharp curtailment of effective Presidential discretion to refuse to grant such relief when it is recommended by the Tariff Commission. This will likely mean that a very substantial flow of injury determinations will call for affirmative Presidential action. With tariffs and quotas established in a position of primacy, and adjustment assistance only supplementary as relief mechanisms, it is fair to say that despite the relaxations in the procedures for securing adjustment assistance. Such assistance would no longer serve as a necessary adjunct of a liberal trade policy. Rather, should H.R. 18970 become an Act, adjustment assistance would become a curious, almost anomalous, supplemental device in the administration of a protectionist trade policy.

SUBSTANTIVE DEFICIENCES AND PROPER REMEDIES THEREFOR

The major deficiency of the Roth report and the President's message lay not in the procedure of adjustment assistance, where they made marked improvements, but in the substance of such assistance.

In recent years, almost the entire attention of observers of the 1962 Act's adjustment assistance provisions has been focussed upon the failure of firms and workers to secure such assistance because of their inability to meet the stringent eligibility requirements of the 1962 Act. Naturally enough, this has tended to divert attention from an appraisal of the adequacy of the benefits themselves, both to "ease the transfer of factors of production from adversely affected industries" [5] and as an inducement to labor and industry at least to abate their opposition to, if not to support affirmatively, a continuation of a liberal trade policy. For even if every applicant were to be deemed eligible for adjustment assistance, if the assistance itself is insufficiently attractive or efficacious in helping to ease the transition to new endeavors, it is unlikely to deter firms and workers putatively vulnerable to import competition from seeking actively to undermine liberal trade.

This lack of attention on the part of those immediately affected by the scale and scope of the benefits afforded by the 1962 Act has meant that little is known of their views concerning the inadequacies of the substance of adjustment assistance now offered. It may be, of course, that nothing that can be done by way of improving the scale of assistance will induce labor and small business to support liberal trade. Nonetheless, the nation having embarked upon the program, and the present Administration having put forward proposals designed to liberalize the eligibility requirement for receiving the assistance now available, it is desirable to point out the deficiencies in the substance of adjustment assistance, with a view to suggesting improvements.

It should be noted that all of the deficiencies in the substance of adjustment assistance hereinafter mentioned would remain were the President's trade proposals to be adopted legislatively, for the simple reason that neither he, nor the Roth Report of early 1969, proposed any significant changes in the substantive benefits available as adjustment assistance to eligible firms and workers.

Assistance to workers.—The amount and kinds of assistance to workers under the adjustment assistance provisions of 1962 looked fairly generous at that time. The basic benefit of 65% of the average weekly wage "trade adjustment allowance" for 52 weeks, was substantially superior to state unemployment compensation benefits. And the 26 weeks of training benefits beyond that 52 weeks,

[5] Lester B. Pearson, *Partners in Development*, Report of the Commission on International Development Praeger, 1969, p. 91. See generally, *Adjustment Assistance Measures*, Report by UNCTAD Secretariat, TD/B/C. 2/86 November 20, 1969.

under certain circumstances, made it that much better. It was true, of course, that these benefits were hedged with technical limitations, earlier identified, which were often more onerous and always as restrictive as those which governed benefits under ordinary state and federal legislation, but these tended to be overlooked in view of the larger cash benefits provided.

Eight years later these benefits appear to be far less attractive. A maximum benefit of 65% of average weekly wages for 52 weeks, after there have been average annual rises in the cost of living of approximately 6 percent with no increase assured, is less imposing than it was, particularly when it is compared not with the level of state and federal benefits of 1962 but with those of today; both state and federal unemployment benefits have increased internally in amount and duration during this 8 year period.[6] Moreover, this period has witnessed the growth of the Supplemental Unemployment Benefit in collective bargaining contracts, i.e. the automobile industry, which, when added to state benefits (aided by federal payments), make up a package of unemployment benefits for some workers which is considerably in excess of 65% for 52 weeks.[7] An increase in both the amount and the duration of adjustment allowances is thus clearly indicated if the adjustment assistance provisions are to serve their purposes. Indeed, despite the quietude of both the Roth Report and President Nixon's Trade Message of November 1969, and of the spokesmen for organized labor before 1970, the Ways and Means Committee surprised everyone by recommending in H.R. 18970 that the readjustment allowance, the major component of Adjustment Assistance, be enlarged from 65 percent of the worker's average weekly wage or 65 percent of the average weekly manufacturing wage, whichever is lower, to 75 percent for each. This is a significant step forward. While there appears to be little reason for not establishing the percentage 5 to 10 percent higher than that, the Ways and Means Committee has in this respect acted quite sensibly in the bill it has recently reported. Unfortunately, it did nothing positive in respect of the other worker's benefits which should have been improved, and nothing at all substantively for firms.

The training benefits likewise appear to be less than sufficient in 1970. A maximum of six months beyond the 52 weeks adjustment allowances period appears to represent an inflexibility short duration in light of the fact that the most effective adjustment of the "factors of production" (here, labor) in the United States is in the direction of technologically advanced industries, which require workers with much more extensive training than has been considered normal hitherto. Undoubtedly, the six months maximum period of training is inadequate for a substantial number of the jobs which are, and will be, made available in such industries.

Finally, the technical limitations contained in the legislation should be relaxed so that they are more consistent with a genuine intention to provide adjustment assistance, than with the spectre of fraudulant claims.

Assistance to firms.—The substance of adjustment assistance to firms provided for in the 1962 Act was much thinner than that which was to have been made available to workers: a highly complex, rather than an informal, "adjustment proposal" subprocedure following a determination of eligibility; financial assistance in the form of loans at an effective rate of between 7 and 8 percent, with no grace periods permissible in respect of either interest or principal; and relatively minor tax benefits, this was not by any means a package of benefits calculated to induce wildly enthusiastic support for a liberal trade program even in 1962. Today even the marginal producer who would like to move into another business with promise of something better than a hand-to-mouth existence, to say nothing of aggravation at work and at home, no doubt greets such an "assistance" program with a Gallic Shrug.

A greatly simplified and informal adjustment proposal procedure would remedy one deficiency, but it would still be a procedural remedial measure. More needs to be done substantively. Here, the interest rate and duration and other

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[6] 26 states currently offer benefits of 50% or more of average state weekly wage; in 18 states there is no percentage maximum limit. These are supplemented by Federal payments, and will be increased by some 50% once P.L. 91-373 (the Federal-State Extended Unemployment Compensation Program, Aug. 10, 1970) becomes fully effective. See CCH Unemployment Insurance Reporter, pp. 4805, 4081.

[7] The Ford Motor Company agreement which expired on Sept. 14, 1970, for example, provided that such supplemental benefits would bring a worker's total benefits to 95% of his weekly after-tax pay. 1 CCH Labor Law Reporter, pp. 59, 923, at 86,069.

terms on borrowing, and the prohibition on grants, appear to be the major current deficiencies. If the United States can make concessional loans for development purposes in less developed countries for terms up to 40 years, at a favorable interest rate of 3 percent, and with a 10-year grace period on principal repayment as it has been doing for many years in the interest of the successful conduct of the foreign relations of our country can it not offer analogous terms, for the same basic reasons, to those whose successful domestic adjustment and development is important to the continuation of liberal trade? If some mix of grants with loans is deemed desirable, in the circumstances of particular cases, is it not desirable to have sufficient legislative flexibility to be able to furnish assistance in that form as well? Again foreign aid legislation has for a long time permitted grants for technical assistance, and they have been utilized together with concessional loans in projects and programs looking toward economic development.[8]

Summary.—Even with relaxed eligibility standards, it is difficult to believe that a substantial increase in workers' readjustment and training benefits and the extension of much more favorable concessional finance to firms would be an unduly burdensome cost to the United States. It would be a small price to pay for a sensible trade and foreign policy, as well as a decent recognition of the equities of those affected by impersonal forces. Such a liberalization of benefits would be an expression of the Government's earnest intention to really ease the transitional path for firms and industries. It would speak at least as loudly in those accents as the proposed relaxation of eligibility requirements and together with that relaxation, would represent a significant effort (1) to wean labor from its recent reversion from its stouthearted advocacy of liberal trade in the 1935–1967 period, to the short-sighted protectionism which has been embraced during the 1920's by the American Federation of Labor and (2) to give assurance to small business that extraordinary efforts to aid them to adjust to more economic endeavors would be forthcoming. Indeed, given the existing paucity of substantive adjustment assistance for firms, improvements along the lines suggested in all likelihood would be far more impressive of the Government's serious intention to facilitate the adjustment of firms than would be a mere relaxation of the eligibility requirements.

CONCLUSION

The improvements in the procedure and in the substance of adjustment assistance herein urged would, if effectuated, mark an impressive advance in our ability to assist firms and workers to adjust, as a dynamic society seeks to serve the needs of its people through the most efficient allocation of all of its resources, human and material. They would indicate that the Government is more prepared to recognize its obligation to provide for the general welfare by easing the path to economic health and well-being of those who are thrown out of work or enterprise by impersonal forces, regardless of the extent to which they are "internal" or "external", than it was in 1962. Eventually, it is believed, it should make no more difference in benefits or otherwise whether there is any alleged connection, however remote, between imports and adversity than when the cause of adversity lies elsewhere. These changes might hasten that day.

It must be added, however, that a fundamental condition of adjustment assistance—indeed its raison d'etre—is assistance to firms and workers to adjust to that increased import competition which a liberal trade policy attempts to encourage. In addition to the other multifarious casualties that a reversal or serious impairment of such a policy entails, such a reversal or impairment must inevitably make meaningless and eventually superfluous assistance which is not connected with such adjustment. In short, firms and workers have no moral case for adjustment assistance if they are unwilling to adjust to increased import competition—and what they have no moral case for they will stand an excellent chance of losing, as a democratic society progressively understands its processes.

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[8] Secs. 234(c)–(e) Foreign Assistance Act of 1969 (P.L. 91–175), and predecessor legislation.

APPENDIX 15

Trade Adjustment Assistance

(By Marvin M. Fooks*)

I. Introduction

The United States has had a trade adjustment assistance program since 1962. The program has not achieved its major goals. It has failed to neutralize resistance to a liberal trade policy. And, the goal of economic adjustment intended by Congress has not been attained.

The inability of many injured firms and workers to avail themselves of the benefits of the program in its early years has made it impossible for large segments of the business and labor community to endorse expansionist trade policies. More recently, workers unemployed because of import competition have not received the full range of benefits promised by the program, and only a few firms injured by import competition have received assistance.

The causes of failure are evident and with varying degrees of difficulty can be eliminated. The barriers to successful program implementation most easily dealt with are those imposed by the Trade Expansion Act of 1962 (TEA) and agency regulations related to that law. The barriers more difficult to remove are those created by the inadequacies of other economic and social policies and institutions.

The trade adjustment assistance program enacted by Congress in 1962 cannot be administered in the manner intended by Congress. The Trade Expansion Act's rules determining eligibility to apply for adjustment assistance, the Act's lengthy and complex procedures for determining whether those rules are met, and the manner in which a number of different federal and state agencies are required to operate under those procedures rule out the swift and certain administration of adjustment assistance benefits to injured firms and workers.

To meet the real concerns of those injured by import competition and to facilitate the desired economic change without prolonging and aggravating economic injury, workers and firms must be confident that they can qualify for assistance. Equally important is the need to assure injured workers and firms that public policy and public institutions are adequate to deal with the problems of economic injury, i.e., that equitable and effective benefits will be delivered.

The Trade Expansion Act can be amended to make it easier for firms and workers to qualify for adjustment assistance benefits and to improve the benefit package and delivery system. But an improved trade adjustment assistance program will fail if economic conditions in the nation or a locality cannot generate alternative employment opportunities at least equivalent to those eliminated as a consequence of foreign competition. Similarly, the program cannot achieve its objective if the public employment system does not attain a high capability to match workers with suitable jobs, and to prepare workers for available jobs, and to provide workers with specific job availability information on a national basis.

If the national unemployment rate is low, it is likely that most economic displacement and unemployment resulting from import competition could be managed by a modest adjustment assistance program. Adjustment problem of older workers and non-diversified communities would remain to be dealt with in a direct and concentrated manner. However, with high unemployment levels, the problems of economic adjustment become increasingly general in nature and cannot be managed by a program, such as the adjustment assistance program, that cannot stimulate effective demand for resources. Appropriate monetary and fiscal policies, in addition to comprehensive labor and manpower programs and

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policies, are required to create the preconditions of a successful trade adjustment assistance program.

In short, the present adjustment assistance program may work in a situation of relatively high labor demand and economic diversification. It is doubtful whether it can cope with economic dislocation that occur in significantly dissimilar situations.

This paper contains suggestions for improvement of the adjustment assistance program. Some of the suggested improvements make no fundamental changes in the scope of the present program. Other alteratons proposed do envision a more ambitious adjustment assistance effort that would facilitate the process of economic change.

II. The Importance of Adjustment Assistance

Adjustment assistance policy logically falls within the framework of major domestic, economic and social policies. Recent history has conspired to focus attention on adjustment assistance as it relates to foreign trade and investment policies.

The U.S. system of dealing with economic change has not evolved to the point where conflicts between foreign and domestic policy objectives are managed smoothly and without risking either set of objectives. The Trade Adjustment Assistance Program represents a major evolutionary step in public policies designed to cope with the problems of economic change. Its attractiveness is enhanced by its potential to bridge foreign and domestic economic policy conflicts.

The purpose of adjustment assistance is to complete the process of economic change set in motion by foreign competition as such change affects particular workers and firms. This task is complicated because economic change disrupts employer-employee and firm-community relations that encopasses a broad range of non-economic issues.

Loss of employment means more than the loss of current income. It involves loss of seniority rights, labor force status, health insurance and pension benefits, as well as other non-economic benefits asociated with a worker's employment.

Similarly, economic change affects the ability of communities to improve or to continue to provide the wide range of services its citizens desire and have come to expect. For some communities, one firm provides a significant source of tax revenues, and indirectly supports other economic activities that constitute other significant revenue sources.

A successful program of adjustment assistance should diffuse conflicts surounding foreign trade and investment policies and permit those policies to be administered in a manner consistent with the national interest. Similarly, other countries will be encouraged to pursue similar policies of adjustment, thereby limiting the areas of potential conflict between nations.

Full employment, price stability, and a strong growing national economy offer the ideal conditions for implementing an adjustment assistance program. In this setting, foreign competition would be less likely to impose severe burdens on domestic industry and labor. Adjustment assistance would be able to complement monetary and fiscal policies in an effort to encourage labor and capital to flow to productive and profitable employment.

Adjustment assistance policy requires the improvement of public employment institutions and the development of new public policies to improve the mobility of labor. Workers cannot be expected to have the resources to explore national or local job markets in the depth required to permit them to guage the long-term prospects of alternative employment opportunities.

A further requirement is the rapid diffusion of business to less diversified economic sectors of the United States. Although adjustment assistance can prepare or supplement resources for specific elements of a community development program, broader based development efforts require more comprehensive national policies.

Current Adjustment Assistance Policy

For nearly a decade the national policy has been to provide assistance to firms and workers displaced by import competition resulting from tariff concessions. Inclusion of the adjustment assistance program, in the TEA was a response to the fears of labor and some business groups of the possible consequences of accelerated import competition that seemed in prospect if the President used the substantial negotiating authority granted in the Act.

When enacted, the adjustment assistance program was not broadly understood or accepted. To some, adjustment assistance had the same negative connotations as escape clause relief. Others were opposed to providing special assistance to workers and firms adversely affected by import competition. Some were concerned that the relatively generous benefits were devious attempts to raise unemployment insurance and other benefits for unemployed workers.

Supporters of the program viewed it generally as a desirable adjunct to other federal programs to accelerate the reemployment of displaced labor and capital resources. Other proponents saw adjustment assistance as a constructive alternative or as a complement to escape clause relief.

These conflicting views of adjustment assistance resulted in the legislation of detailed provisions regarding eligibility of firms and groups of workers to apply for adjustment assistance, eligibility to receive adjustment assistance, and further explicit and implied Congressional direction concerning the public institutions that were to be employed in the administration of the adjustment assistance program.

There is little question that the extensive procedural and substantive detail enacted by Congress for the purpose of limiting the scope and preventing abusive administration of the adjustment assistance program has had the unintended effect of preventing its effective development.

Today, there is widespread agreement about the need and purpose of adjustment assistance. Recent discussion of the program stresses problems of implementation, notably the need to liberalize the statutory criteria used to determine whether groups of workers and firms are injured by import competition. Less obvious are the problems associated with statutory criteria determining the delivery of benefits and services to injured firms and workers and the adequacy of the benefits themselves.

BENEFITS FOR WORKERS

Adversely affected workers who are determined to be eligible for adjustment assistance benefits may receive trade readjustment allowances, training, testing, and counseling services, and relocation allowances.

Trade Readjustment Allowances (TRA) are weekly payments based on the workers' most recent earnings history in employment adversely affected by imports. Workers may receive up to 65% of their average weekly wage or 65% of the average weekly manufacturing wage, whichever is less. Workers under 60 years of age who are not in training may receive TRA for a maximum of 52 weeks. Workers in training may receive up to 26 additional weeks of TRA payments. And workers 60 years or over may receive an additional 13 weeks of TRA payments.

Workers are also eligible to receive training, testing and counseling services available under any federal law. Those who refuse to accept, or who do not make satisfactory progress in suitable training may not receive trade readjustment allowances.

Workers who cannot find suitable employment in their normal place of residence may receive relocation allowances equivalent to two and one half times the average weekly manufacturing wage plus the reasonable and ordinary expenses incurred in transporting the worker, his family and household effects to his new location of employment. Relocation allowances are payable to an adversely affected worker who is the head of a household and who has a job or a bonafide job offer affording a reasonable expectation of long-term employment in the area to which he wishes to relocate.

BENEFITS FOR FIRMS

Firms certified as eligible to receive adjustment assistance may receive technical assistance, financial assistance, and tax assistance.

Technical assistance includes aid in preparing an adjustment proposal for a firm, managerial advice and counseling, research and development assistance, and market research. Where appropriate, the cost of the technical assistance is shared with the firm.

Financial assistance consists of loans—either direct, or in cooperation with banks or other lenders through agreements to participate on an immediate or deferred basis—for land, plant, buildings, equipment, facilities, machinery, and,

in exceptional cases, for working capital. There is no limit on the size of loans, but maturities may not exceed 25 years. The applicable interest rate is determined by the Treasury Department.

Tax assistance in the form of a net operating loss carryback over a five-year period is provided by the Internal Revenue Service when the Secretary of Commerce determines, among other legal requirements, that such tax assistance will materially contribute to the economic adjustment of the firm. Without such a determination by the Secretary, the tax loss carryback is limited to the normal three years.

CERTIFICATIONS

The Trade Expansion Act of 1962 provides two procedures for workers and firms to qualify for adjustment assistance. One permits a firm or group of workers to directly petition the Tariff Commission for certifications of eligibility to apply for adjustment assistance. The other allows workers and firms to apply for adjustment assistance following an affirmative Tariff Commission finding of injury with respect to an industry and a subsequent authorization by the President that the industry's firms and workers can request adjustment assistance certifications from the Secretaries of Commerce and Labor.

Congress established identical criteria for determination of injury with respect to direct worker/firm petitions for adjustment assistance and for industry petitions for escape clause relief or "tariff adjustment". In order for eligibility to be established for either adjustment assistance or escape clause relief, the following criteria had to be satisfied: increased imports causing injury to an industry, firm or group of workers must have resulted in major part from concessions granted under trade agreements; and the increased imports must have been the major factor causing injury to the industry, firm, or group of workers. The Tariff Commission has responsibility for making these determinations for industry petitions for escape clause relief and for worker and firm petitions for adjustment assistance.

Following acceptance of an industry petition for tariff adjustment, the Tariff Commission has six months to conduct an investigation and issue its findings. If the Commission finds injury, the President, in addition to other actions, can authorize the workers and firms of that industry to apply to the Secretaries of Labor and Commerce, respectively, for adjustment assistance. The President ordinarily acts on industry cases within the sixty-day limit imposed by the TEA unless he requests further information from the Tariff Commission.

After the acceptance of a firm or worker petition, the Tariff Commission has sixty days within which to complete an investigation and issue its findings. If the finding is affirmative, the firm or group of workers may then apply to the President for adjustment assistance. Under existing Executive Orders, workers and firms apply to the Secretaries of Labor and Commerce, respectively, following an affirmative Tariff Commission finding.

Following determination of injury to an industry and the President's authorization for firms and groups of workers to petition, the Departments of Commerce and Labor will accept petitions for certifications of eligibility to apply for adjustment assistance. The Departments require sixty days to investigate, i.e. to determine whether imports are the major factor causing injury and to gather other facts pertinent to a certification. Departmental certification of eligibility to apply for adjustment assistance are usually issued within thirty days following a sixty-day Departmental investigation, but there is no specified period within which the Department must act.

Following affirmative findings of injury by the Tariff Commission in worker and firm cases, the Departments conduct a further investigation to develop information on which to base a certification of eligibility to apply for adjustment assistance. According to Departmental regulations, investigations must be completed within twenty days, but there is no established period within which certifications must be issued.

Worker certifications are issued by the Department of Labor to groups of workers whose identity is defined in the certification. Individuals who comprise the certified group must then apply for individual determinations of eligibility to receive adjustment assistance benefits. Such determinations are made by state employment security agencies, acting for the Secretary of Labor, based on criteria set forth in the TEA and the details of the certification.

Similarly, firms certified by the Commerce Department as eligible for adjust-

ment assistance are required to submit an adjustment proposal to the Department of Commerce before adjustment assistance benefits may be provided.

THE LENGTH OF THE PETITIONING PROCESS

Depending on the process—three or four separate findings are required before a firm or group of workers can receive adjustment assistance benefits. There are no established time limits within which adjustment assistance benefits must be delivered to firms or individuals following eligibility determinations by the Departments of Commerce and Labor.

Definite time limits exist only for findings of injury made by the Tariff Commission (six months and sixty day, respectively, for industry and worker/firm petitions) and for Presidential action following an industry finding of injury. Consequently, the industry process involves at least eight to eleven months before an individual worker or firm can be certified as eligible to apply for adjustment assistance benefits.

The direct worker/firm process is substantially shorter. Each Department requires twenty days for supplementary investigations following a 60 day Tariff Commission investigation and an affirmative finding of injury. If there are no unexpected delays, certifications for workers and firms could be issued three months after the acceptance of a petition by the Tariff Commission.

Following the petitioning process, individual workers and firms must undergo further statutorily and administratively imposed procedures before receiving benefits. Additional weeks or months may pass before benefits are actually received.

III. Experience With Trade Adjustment Assistance and the Problem of Retroactivity

Delays inherent in the present procedures effectively limit the type of worker benefits to the payment of trade readjustment allowances and create the necessity to make such payments retroactively. The problem of retroactivity is a serious one because it both increases the cost and diminishes the potential effectiveness of the program. Retroactive payment of firm benefits is not possible, but delays in reaching the point when concentrated attention is given to a firm's problems undoubtedly add to the costs of administering an adjustment assistance program for the firm. The problem of delay and retroactivity is discussed here in the context of a review of operating experience with adjustment assistance.

From October 1962 to November 1969, the Tariff Commission denied every petition submitted to it by workers, firms and industries. In November 1969, the Commission approved three worker petitions. Between January 1970 and March 1971, three industry petitions for tariff adjustment, and 66 worker and 8 firm petitions for adjustment assistance were filed with the Tariff Commission.

The Commission completed action on: two industry petitions—finding no injury in one and dividing evenly on the other; 45 worker petitions—finding injury in 16 cases, no injury in 9, and dividing evenly in 20 cases and 7 firm petitions finding injury in one case, no injury in two cases, dividing evenly in three cases and discontinuing one case.

As a consequence of affirmative Tariff Commission findings, Presidential acceptance of injury findings in evenly divided cases, and Presidential authorization of firms and workers involved in industry cases to apply for adjustment assistance, the Department of Labor has certified 29 of 30 petitioning groups of workers as eligible to apply for adjustment assistance. The Commerce Department has certified 8 firms as eligible to apply for adjustment assistance and denied one such certification.

ASSISTANCE TO WORKERS

Certifications by the Department of Labor have affected over 10,000 workers. More than $7 million has been expended on trade readjustment allowances. Benefits received by workers have been primarily trade readjustment allowance. Few workers have been trained or relocated. A significant portion of Trade Readjustment Allowances has been paid retroactively. This outcome is attributable to two factors. First, the petitioning process in practically all cases begins after unemployment has occurred and results in the establishing of an impact date (the date after which import caused injury is determined to have occurred)

prior to the date of the filing of a petition with the Tariff Commission. Second, at the state level the process of certifying individuals and making actual payments is often delayed.

In the first 29 certifications by the Department of Labor the elapsed time between the issuance of a certification and the impact date has averaged about sixteen months. The shortest interval was about two and one half months; the longest, 39 months. As noted above, the maximum benefit period for workers in training is 18½ months. It is apparent from these figures that many workers are receiving retroactive payments that exhaust their eligibility. Specific data on the exhaustion rate are not available, but there are indications that it is running about 50%.

Retroactive payment of Trade Readjustment Allowances reduces the active benefit period, eliminates the incentive of workers to take advantage of retraining programs and relocation benefits and increases the cost of the program.

The TEA stipulates that trade readjustment allowances are not to be paid to workers who refuse to accept, or who fail to make satisfactory progress in suitable training. But recent experience raises doubts as to whether the present administration of trade readjustment allowances encourages workers to enter training. Administration of allowance payments is the responsibility of the unemployment insurance system while manpower and training services are administered by the employment service system at the state governmental level. Achievement of the training objective clearly requires a high degree of coordination between the employment service system and the unemployment insurance system. Such coordination is evidently lacking because few workers actually receive training services. In one instance where a concentrated effort was made to retrain sizable numbers of workers, over seven months elapsed before the first workers entered training and the vast majority of workers had not been placed in training after eight months had elapsed. Lack of experience with relocation benefits is in part also indicative of administrative problems and information deficiencies at the State and local level—but may also be caused in part by the statutory criteria determining individual eligibility for relocation assistance.

While the high incidence of retroactive payments, the apparent high rate of exhaustion of benefits and the low incidence of delivery of retraining and manpower services are basically the result of flaws in the current program, these outcomes are in part attributable to the general economic conditions that prevailed in the late sixties. When the unemployment rate is rising, the burdens associated with the delivery of manpower services, and income maintenance payments increase. Also during this period, most state employment services, in cooperation with national manpower policy, allocated large amounts of resources to other disadvantaged groups and were not able, on short notice, to release resources for adjustment assistance purposes.

ASSISTANCE TO FIRMS

The Department of Commerce has approved the expenditure of approximately $8 million to assist three firms. Assistance to five other firms awaits the submission of adjustment proposals by the firms and approval by the Department of Commerce.

As with the program for workers, considerable delays also occur in the administration of adjustment assistance benefits to firms especially in the interval between approval of an adjustment proposal and provision of benefits. The length and complexity of the petitioning process is a liability common to both workers and firms who seek certifications for adjustment assistance.

Procedures of certification involve several steps and several federal agencies. Following certification, a firm may apply for adjustment assistance. Shortly after applying, a firm must submit an adjustment proposal if it has not been submitted with the application. Proposals must be submitted within two years of the certification of eligibility to apply for assistance. The Department of Commerce will finance the cost of developing an adjustment proposal, if necessary. Commerce must review the adjustment proposal and approve it before the firm can receive benefits. The benefits then will stem from separate actions of the Small Business Administration, the Internal Revenue Service and the Department of Commerce.

The nature of the process that firms must follow before receiving benefits

suggests that delays similar to those that characterize the worker program occur, but experience has been too limited to make judgments on the actual effects of any delays. To date no firm that has applied for adjustment assistance has been forced out of business while waiting to receive assistance.

IV. Experience With Adjustment Assistance Under the Automotive Products Trade Act of 1965

The procedures and criteria whereby workers and firms gained access to adjustment assistance benefits under the Automotive Products Trade Act of 1965 (APTA) reflect the early experience with TEA criteria and procedures plus the special circumstances surrounding the U.S.-Canada auto agreement. APTA procedures and criteria were changed to limit the role of the Tariff Commission to a fact finding function and to improve the probability that well-documented petitions would result in affirmative decisions.

The changed procedures and criteria activated the adjustment assistance program. Prior to the expiration of APTA in 1968, petitions for adjustment assistance were filed by 21 groups of workers. Certifications were issued in 14 of the cases covering 2,500 workers in six states. Seven petitions were denied. Approximately 1,950 workers actually received weekly payments totaling about $4.1 million in trade readjustment allowances, but only about $61,000 for training costs, since less than 100 workers receive training. It appears that sizable retroactive payments were made to APTA certified workers, however, and that approximately 25% of the workers receiving benefits exhausted their entitlement. No firms petitioned for assistance.

A significant difference between the APTA and TEA experience with delivery of benefits is in the extent to which benefit entitlement has been exhausted. The TEA rate of exhaustion appears to be about double that of the APTA experience. One probable explanation for this lies in the general labor market situation which was better during the APTA experience than under recent TEA activity. Other causes may be the higher skill level of auto industry workers and the changed group certification and date of adverse impact to an average of about 5 months, compared with 16 months under TEA procedures.

V. An Evaluation of the System

The major administrative problems of the existing program of adjustment assistance stem from delays associated with the petition process and the delivery of benefits. The former have been recognized in the proposed Trade Act of 1970 and earlier in the Automotive Products Trade Act of 1965. The latter have not been adequately appreciated, although the proposed Trade Act of 1970 did touch upon the problems associated with the delivery of services.

The present system is also inadequate because it does not deal with the full range of adjustment problems in a coordinated fashion. For example, there is no provision to aid communities or utilize the full range of community resources to speed the adjustment process. Nor does the system provide for effective anticipation of economic displacements that may result from U.S. international trade and investment policy.

The Petitioning Process

Two difficulties inherent in the current petitioning process aggravate problems of adjustment—a considerable degree of uncertainty discourages firms and workers from petitioning, and the delivery of benefits is usually delayed. These problems are aggravated by the excessive detail required in a petition before it will be accepted by the Tariff Commission.

The degree of uncertainty connected with the petitioning process can be decreased or eliminated by liberalizing the criteria for determining eligibility to apply for adjustment assistance and by simplifying the petitioning process itself. Simplification can be realized in large part by limiting the role of the Tariff Commission to a fact finding function and giving sole responsibility for receiving petitions from firms and workers and making determinations to the President. This was the approach used in the APTA and suggested in the proposed Trade Act of 1970.

In the case of APTA, the petitioning process—the filing of a petition and the issuance of a determination—took between 70 and 105 days depending on whether the President requested supplementary information from the Tariff Commission.

Under the proposed Trade Act of 1970, the process could take between 95 and 135 days, compared with the present 3 to 8 months. And unlike the APTA and the proposed Trade Act of 1970, there currently is no statutory limit within which a determination with respect to adjustment assistance must be made. If the Tariff Commission role in the adjustment assistance program were eliminated, it is probable that an appropriate Executive Branch agency could within 30 working days receive, process, and rule on adjustment assistance petition by a firm or a group of workers.

THE DELIVERY OF BENEFITS

Liberalizing the eligibility criteria for adjustment assistance and simplifying and shortening the petitioning process would improve the ability of program admnistrators to speed the delivery of adjustment assistance benefits. But in addition, other limitations inherent in the present delivery system must be dealt with directly.

State employment security agencies, operating under detailed federal guidelines, administer benefits for workers. The program is financed entirely by federal funds. Actual administration of worker benefits takes place at local offices of State employment security agencies which administer employment services and unemployment insurance benefits. The unemployment insurance and employment service activities are separated functionally and in many instances are carried on in separate buildings.

Successful administration of adjustment assistance requires a fusion and flexibility of local office operations that is extremely difficult, if not impossible, to achieve under present state and federal arrangements. In addition, the requirements that individual workers must meet to be eligible for adjustment assistance aggravate administrative problems of local offices and delay the delivery of services.

TEA provisions on individual eligibility require a 1½ to 3 year labor force attachment, minimum earnings while in the labor force, and minimum requirements for earnings and length of employment in the job subsequently lost because of injurious competition from imports. These provisions mainly reflect a desire to differentiate the program from unemployment insurance programs. But the burden placed on local employment service officials to reconstruct individual employment and earnings histories in order to determine individual eligibility and allowance payments causes delays that increase the budgetary cost of the program and prevent the attainment of program goals. Several reasons underlie this outcome. First, local employment service officials have been trained to administer programs of wide application, with established procedures and practices. A new program of limited application that departs from established procedures can be expected to be the victim of delays due to overcaution and lack of specified resources for its administration. Second, the adjustment assistance program emphasizes that eligible workers should be provided counseling and testing services and training. Yet, training funds specifically for adjustment assistance have not been readily available and the required coordination at the local employment security office has proven extremely difficult to achieve in order to provide required employment and manpower services in a reasonable time following certification of eligibility for adjustment assistance. In effect, the training requirement for allowance payments is not honored and a major instrument of adjustment assistance is not used. Third, delay in certifying individual workers increases the proportion of retroactively paid TRA and reduces the benefits available for positive programs of adjustment. If the worker receiving a retroactive payment has remained unemployed or has succeeded in finding only sporadic employment, then the retroactive payment is simply delayed unemployment insurance albeit at a higher level.

The administrative obstacles apply to the full spectrum of adjustment assistance activities at the local level. Their implications vary in importance with respect to the 3 categories of worker benefits.

Trade Readjustment Allowances are relatively easy to administer—once the training requirement is ignored—because they involve bookkeeping processes that can be adapted to the unemployment insurance system. TRA are difficult to administer promptly, but eligible workers will, sooner or later, receive allowances.

Training, testing an counseling services are more difficult to administer. Training capabilities of local offices are generally limited; special training pro-

grams cannot be initiated without prior approval from several state and federal bureaucracies; suitable training or training facilities may not be available in the community; available training may not mesh with existing community job requirements; and workers may lack the confidence to undertake training.

The administration of relocation allowances requires a high degree of coordination between the local employment security offices and/or between State employment security agencies. Very few workers have successfully taken advantage of relocation benefits or even attempted to do so under the program of adjustment assistance. This may be attributable to the fact that only heads of households may qualify for relocation benefits, and such individuals are the least mobile members of the labor force.

It is important to note the impact of the criteria determining eligibility for adjustment assistance on adversely affected workers who have been out of the labor force for 3 years or who have recently entered the labor force. Workers who in a 3 year period have worked less than 78 weeks before losing their jobs because of import competition are not eligible; workers who have worked more than 78 weeks but have less than 52 weeks of employment in the job lost because of import competition are not eligible and, if during the period of employment a worker earned less than $15 per week, those weeks of employment would not be included in the base period used for determining adjustment assistance eligibility.[1]

The individual eligibility requirements effectively discriminate against new labor force participants. These workers are the least protected in the sense that they have little or no seniority within a plant and have not established entitlement to separation pay or other benefits designed to mitigate the effects of precipitous loss of employment. New labor force entrants are desirable participants in programs of adjustment assistance because they have not established community and industry ties to the extent that older workers have and consequently stand to benefit more from the adjustment assistance program. Similarly, the "head of household" requirement for relocation benefits discriminates against those more prone to take advantage of relocation assistance to obtain alternative employment.

VI. Changes Required To Improve the Worker Adjustment Assistance Program

Basic reform of the existing program

From the foregoing it is apparent that major problems associated with the delivery of adjustment assistance benefits flow from the statutory provisions. Consequently, if program administrators are to improve upon recent experience, the TEA would have to be amended to:

1. Liberalize and simplify the present labor force attachment and earnings criteria that determine individual eligibility for adjustment assistance. Anyone who has worked regularly in, and was separated from adversely affected employment should be eligible for all adjustment benefits.

2. Simplify the computation of TRA payments. TRA payments could be based on weekly average industry earnings computed by the Bureau of Labor Statistics (BLS) just as the maximum payable TRA allowance is currently based on the BLS computation of the average weekly manufacturing wage.

3. Tie the TRA payment to the employment service rather than unemployment insurance system. If TRA is to be tied closely to training, such payment should not be made retroactively. It would be preferable to provide workers entitled to retroactive payments with either a lump sum equity payment in lieu of TRA. extended unemployment insurance for the retroactive period and for the period he waits to enter training, or the choice of higher level of TRA if he enters training or a lower level of extended unemployment insurance with no training obligation.

4. Make relocation assistance available to all workers displaced because of import competition. In addition to existing relocation payments, relocation loans to allow eligible workers to search for new employment should be made available to those who cannot obtain adequate relocation information and other assistance

[1] It might be possible for adversely affected workers to receive training benefits under TEA even if they are not eligible for TRA payments or relocation benefits.

through the public employment service. Such loans should be low or non-interest bearing obligations of moderate duration and contain a repayment provision that could be waived if the relocation to new employment is accomplished within a specified time period. Consideration should also be given to compensating workers who wish to relocate but who will suffer severe financial losses as a consequence of the sales of homes under unfavorable marketing conditions.

5. Make the adjustment assistance program flexible enough to relax the training requirement for the receipt of trade readjustment allowances. Training availability under existing government programs may be severely limited in situations of general or local economic malaise.

6. Permit qualified workers to prepare for and take academic, professional, or technical training and finance such training through a combination of a basic grant equivalent to allowances paid for occupational training plus loans to finance training of longer duration.

All of the foregoing suggestions can be encompassed in the present adjustment assistance program. They represent marginal changes aimed at the potentially more productive and more mobile element of the labor force—the young and the ambitious. The program must also be improved to encompass ways to assist the less mobile and the older worker whose ability to adjust to changing economic conditions may be more limited.

VARYING THE PACKAGE OF BENEFITS FOR SPECIAL SITUATIONS

Consideration should be given to the provision of an alternative package of adjustment assistance benefits for workers unable or, with good cause, unwilling to take advantage of ordinary training and relocation assistance. Such a package might include: (1) income maintenance payments adjustable upward on the basis of the number of dependents a worker has. The duration of such payments might be double that available to more favorably situated workers; (2) assistance to enable the worker to maintain health and accident insurance and similar job related benefits at a cost not in excess of that paid while employed; (3) provision for intensive individual job development programs; (4) provision for public service employment.

OLDER WORKER BENEFITS

Older workers with limited or highly specialized skills are particularly susceptible to long term unemployment if laid off. Such workers are not likely to be motivated to take advantage of training opportunities for new occupations that require different skills nor are they likely to take advantage of training opporunities for new occupations that require different skills, nor are they likely to take advantage of relocation benefits since they probably will have established deep ties to the community in which they live.

Older workers who wish to remain in the labor force should be provided the full range of adjustment assistance benefits. Those who wish to retire from the labor force should be able to take advantage of an alternative package of benefits that would include the following:

1. Workers between 55–60 years of age with vested pension rights should be allowed to merge their vested rights with the social security system to accelerate their eligibility for social security benefits.

2. Any worker over 55 years of age eligible for adjustment assistance benefits should be considered to have met the minimum work requirements for social security benefits.

3. Workers 60 years and older should be able to elect to receive TRA payments until such time as they qualify for the receipt of social security payments.

4. Workers 55 years and older should have health insurance provided at government expense until such time as they qualify for social security benefits or obtain suitable employment.

"FRINGE" BENEFITS AND ADJUSTMENT ASSISTANCE

Workers eligible for adjustment assistance benefits should not have those benefits decreased because of other private benefits or remuneration available to them as a consequence of their prior employment relationship. Workers should be able to receive severance pay, supplemental unemployment benefits, vacation and pension benefits without impairing their entitlement to maximum adjustment assistance benefits.

Furthermore, workers should not be forced to take less than suitable employment under distress conditions. Many workers have obligations to provide for medical and health needs of dependents. Often, such needs can only be financed through group insurance plans associated with the worker's employment. If the employment is lost, so is the ability to finance medical expenses.

The government should assume the responsibility to maintain the eligibility of an adversely affected worker for fringe benefits of the nature of group health protection during the period he is entitled to adjustment assistance benefits.

FIRM ADJUSTMENT ASSISTANCE BENEFITS

The American tradition of competitive business enterprise limits the extent of public assistance that can be offered a firm having difficulty competing in the marketplace. However, the present package of adjustment assistance benefits represents public policy effort to support that tradition. In effect that package is government endorsement of a private initiative.

The essence of the adjustment assistance package for firms is the requirement that the firm take the initiative in the form of its adjustment proposal to reestablish itself as a viable enterprise. The present package permits the Commerce Department, with the cooperation of other government agencies, to provide a relatively openended package of aids to the firm to enable it to develop an adjustment proposal and carry it through to its ultimate test in the marketplace.

A desirable improvement in the package consistent with the emphasis of the present program on entrepreneurial initiative would be the inclusion of authorization to provide financing during the period following the approval of the adjustment proposal submitted by the firm and the actual administration of the benefits by the agencies involved. In some circumstances such interim financing may be required to prevent the firm from failing or resorting to high cost financing thus increasing the government's cost of providing adjustment assistance.

Tax assistance might be improved further by providing tax credits for new investment or accelerated depreciation.

NEW DEPARTURES FOR ADJUSTMENT ASSISTANCE INVOLVING FIRMS

In essence the firm is the engine of economic adjustment and as such should be centrally involved in programs of adjustment assistance to workers and to communities.

There is no bar to the simultaneous provision of adjustment assistance to a group of workers and their firm. But, present procedures discourage simultaneous petitions. The adjustment assistance program should encourage joint firm/worker adjustment assistance programs where appropriate. It can do so by a relatively simple modification of the present law to provide for joint worker/firm petitions for assistance; or by extending the coverage of adjustment assistance certification obtained by a group of workers to the firm and vice versa.

It would be preferable to encourage the joint petition of firms and workers and stipulate that an adjustment proposal accompany the petition. Such a procedure has the advantage of increasing the motivation of all parties to deal constructively with a common problem.

Similarly, there should be provisions for joint firm/community petitions in cases where a firm is a significant contributor to the economic health of a community. In connection with such petitions, additional adjustment assistance to firms might be provided in the form of relief from anti-trust policy where such policy prevents a combination of firms that would insure the maintenance of production in the threatened community. Such relief would be available only at the discretion of the Justice Department after the Commerce Department has declared that it would be in the vital interest of the communiy.

ADJUSTMENT ASSISTANCE FOR COMMUNITIES

The current adjustment assistance program has been aimed at isolated dislocations presumably because Congress did not believe that the liberalized national trade policy would result in widespread or generalized dislocations. Hardly any attention has been given to the problem of communities whose economic base is substantially dependent on firms whose production is vulnerable to import competition. Such communities have an obvious interest in preserving their

economic base and cannot be expected to endorse a national policy that might impair their ability to maintain adequate schools and other essential community services.

It is in the interest of such communities that they diversify their economic base. Adjustment assistance offers a direct avenue for such diversification efforts. Consequently, the adjustment assistance program should be broadened to permit communities to petition for adjustment assistance on the same basis as a firm or group of workers.

Special benefits should be provided to communities to encourage initiation of economic diversification efforts. Such benefits might include grants for specific economic development projects, such as the establishment of community economic development corporations and the improvement of public transportation industry centers, the financing by the government of feasibility studies, and joint firm/worker adjustment assistance programs aimed at specific economic enterprises.

VII. Broadening the Impact of Adjustment Assistance

Adjustment assistance for workers employed in production for exports

The Automotive Products Trade Act of 1965 established the precedent for assisting workers and firms injured because of changing production patterns including declining production for export. A generalized case for providing adjustment assistance to firms and workers injured by loss of export markets can be made within the confines of the natural trade agreements program.

The principal of reciprocity is an important underpinning of the trade agreements program. Reciprocity dictates that for every tariff concession granted by the United States an equivalent concession be obtained from a foreign government. The equivalent concession ostensibly is measured in terms of U.S. industry's competitive ability to export specific products. Unquestionably, the government's negotiations of reciprocal tariff reducing agreements has encouraged expanded export activity by U.S. industry. Similarly, officially sanctioned activities to stimulate export expansion have further exploited the groundwork established in part by the trade agreements program. Increased employment is associated with expanding domestic production for export. Workers employed in production specifically for export would have been elsewhere or otherwise employed had it not been in the national interest to remove barriers to trade and to expand exports.

Workers and firms engaged in production for export have established specific stakes in their current export-related employment. Loss of particular exports is to be expected as economic conditions change just as increased imports are to be expected. A national trade and investment policy that accelerates the global reallocation of resources also accelerates the rate of economic change and causes problems of adjustment for resources previously protected by less expansionary policies.

On the above grounds, adjustment assistance for workers formerly in export-related empoyment, or in employment threatened by the imminent loss of exports, is justified.

In addition, there are special situations involving loss of exports that justify provision of adjustment assistance to workers (and possibly firms). One such case involves the multinational corporation; another involves situations similar to that associated with the U.S.-Canadian Auto Agreement; and the third encompasses situations where domestic injury results as a consequence of a unilateral act by a foreign government that results in the loss of export markets.

VIII. The Multinational Corporation: Corporate Responsibilities and Adjustment Assistance

Multinational corporations have sufficient market power and economic resources to initiate dramatic and precipitous economic change in countries less prosperous than the United States and in communities within the United States. A corporate decision to shift production from the United States to a subsidiary in a foreign country creates domestic problems of adjustment that are basically the same as those associated with displacements arising from import competition with one major difference. The difference is that a multinational corporation is achieving its own optimum economic position and is more favorably situated than firms forced out of business because of import competition or unable to set up production facilities in a foreign country to retain a share of foreign markets.

The adjustment assistance program can be modified to take advantage of the special situations associated with the multinational corporation. For example, since the multinational corporation plans the distribution of its production facilities on a global scale, it would be reasonable to assume that the corporation is in a position to give prior notice of sizable economic dislocations. Such prior notice could take the form of a petition for adjustment assistance for workers likely to be adversely affected. It would be to the benefit of all interests involved in such situations if an adjustment assistance plan could be initiated as soon as the corporation knows when the change in its operations will occur. An adjustment assistance plan will benefit the corporation by encouraging the labor force to remain with the corporation throughout the transition. By promising future employment opportunities, it will benefit the workers by reducing or eliminating the trauma associated with precipitous loss of employment. And by encouraging new economic activity with the same employer or a new one, the plan will preserve and perhaps expand a community's economic base.

SHIFT TO FOREIGN SOURCES OF SUPPLY BY MAJOR RETAIL ENTERPRISES

The United States-Canada Auto Agreement has resulted in the rationalization of the North American auto industry. The rationalization process encompassed both production and distribution. Similar rationalization occurs on a global scale as a consequence of the activities of major retailers who seek efficient suppliers of goods.

Major retailers often times contract for merchandise on a volume basis with chosen manufacturers. From time to time retailers shift contracts to foreign sources thus resulting in the same type of economic displacement created by a decision of multinational corporations to shift manufacturing facilities overseas. Prior notice of such shifts by retailers would facilitate implementing an effective adjustment assistance program.

HARMFUL FOREIGN GOVERNMENT ACTIONS

Domestic injury may occur as a consequence of a unilateral act by a foreign government that results in the loss of export markets. Under the GATT, exporting nations have a right to compensation if a foreign government's action impairs another nation's exports. If compensation is not forthcoming, the injured nation may retaliate against the other country's exports. In any event, it is likely that firms and workers producing for export will be injured. Such firms and workers should be entitled to receive adjustment assistance.

IX. Data Needs and Early Warning

There is a critical need to reform the data system that serves foreign economic policy needs. Such reform must begin with the basic data requirements of the system as well as its mode of collection and transmission to data users. It should be recognized that much of the data used to support public and private trade policy positions is used not necessarily because it is good data, but because it is the only data available.

Foreign economic policy officials need disaggregated economic data on prices, wages, profits, production and employment as they relate to imports and exports, and they need comparable information for foreign countries. Such data would serve the need of trade negotiator and form the basis of a system with which to anticipate problems of trade adjustment.

Specifically for adjustment assistance purposes, three basic types of data are required. The first type, dealing with the actual impact of foreign trade on the domestic economy is not readily available and would require a substantial investment of general revenues to define, collect, and apply such data for policy purposes. It requires scrapping a great deal of the present data system and restructuring the remainder to provide data on product prices and costs, production and employment by product, productivity, wages, and profits by product, etc., in short, the detail that will enable policymakers to ascertain whether or not the national trade policy is having the impact that it is now assumed to have. Such detail would make the task of the trade negotiator somewhat easier, both in his dealings with his foreign counterpart and domestic interest. For adjustment assistance purposes, it would greatly simplify the problem of identifying relatively weak economic product sectors and permit the coordination of adjustment assistance and trade negotiation policy, rather than relying exclusively on adjustment

assistance or restrictive post facto trade policies to deal with the problem of dislocation.

The second type of data is that available to federal, state and local government agencies dealing with specific situations of company plans to initiate, modify, or halt production activity. Such data may take the form of a request to a local employment service office for a particular type of employee or a new employee testing or training program; it may be in the form of a request to the Small Business Administration for financial or technical advice; or it may be in the form of a request to a local governmental office dealing with taxes, pollution abatement, or some other production-related activity. Presently, for example, limited use is made of "mass lay-off" reports—i.e., reports made by employers to local employment security agencies that give prior notice of substantial labor-force displacement. Other appropriate intelligence may possibly be available from other public agencies and should be obtained on a regular basis.

The third type of data is that available through the private sector and is of the nature of the information alluded to in connection with the activities of the multinational corporation, viz, notice of corporate decisions to shift sources of supply and production to foreign countries. Similar intelligence is also available from other sources albeit at a later date, e.g., labor organizations, local chambers of commerce, banks and financial intermediaries. Such data is extant, and should be made available to the government.

X. Need for a New Organization of the Adjustment Assistance Effort

At the present time there is no cohesive adjustment assistance bureaucracy with responsibility for the administration of the program. The processes of certification of firms and groups of workers are carried on separately from the processes of delivering benefits to individuals and firms. Adjustment assistance policymakers have little if any budgetary control over the program. It is necessary to centralize control to give direction to the program and to cut down the time required to deliver adjustment assistance benefits.

At the same time, it is desirable to maintain the program as an integral part of the government's organization that deals with foreign economic policy. Adjustment assistance experience, in terms of costs and realized benefits, will provide foreign economic policymakers with real data on which to base policy decision. Furthermore, until such time as the government assumes the responsibility for a national industrial and manpower policy, more policy leverage vis-a-vis priorities for domestic programs is available to administrators of adjustment assistance if the program is itself recognized as a cornerstone of U.S. foreign economic policy.

Under the present statutory provisions, administration of adjustment assistance could be centralized to a greater degree by combining responsibility for both policy and operations in one Executive Branch office answerable jointly to the Secretaries of Commerce and Labor. That office should be allocated the funds necessary to operate the adjustment assistance program.

With budgetary control of the program, the adjustment assistance administrator should have more influence in obtaining the required services from operating agencies at the federal and local levels or where appropriate from private sources.

If the statute is amended to improve the program, Congress would be advised to eliminate the role of the Tariff Commission in adjustment assistance except to the extent that the Commission influences the program through its actions on industry petitions for tariff adjustment.

The Labor and Commerce Departments currently perform investigations of firm and worker situations to determine eligibility for which adjustment assistance differs only marginally from those carried out by the Tariff Commission. It should be possible to consolidate this investigative capability in a joint Commerce/Labor office by merging present Labor and Commerce expertise to perform the investigatory function.

Centralizing the investigatory and certifying function in the Executive Branch, adding to it the policy responsibility for operations, and providing it with centralized budgetary control would greatly enhance the probability of effective program implementation.

The locus of a centralized adjustment assistance office within the Executive Branch is important. Furthermore, it should have direct ties to the Council on International Economic Policy.

The Trade Adjustment Assistance office should have primary responsibility for: adjustment assistance policy and operations; making adjustments assistance de-

terminations with respect to worker/firm/community eligibility; analyzing and collecting data from public agencies and the private sector relevant to adjustment assistance policy and operations; contracting with public agencies and the private sector for services that might be required to implement specific adjustment assistance operations at all levels of activity.

The office should have its own identifiable appropriation for adjustment assistance activities including funds for the provision of specific types of benefits and services. In addition, other agency expenditures for adjustment assistance programs should be debited to the office so that a clear accounting of the costs of the adjustment assistance program will be available.

XI. Summary

The trade adjustment assistance program included in the Trade Expansion Act of 1962 (TEA) did not become operable until November 1969 because workers, firms and industries could not satisfy the Act's criteria determining access to the program.

Partly in response to this early experience, Congress enacted substantially different and more liberal access criteria for firms and workers in the automotive industry when it provided for adjustment assistance in connection with the U.S.-Canada auto agreement. The adjustment assistance provisions of the Automotive Products Trade Act of 1965, which expired in 1968, inspired the first adjustment assistance experience.

Adjustment assistance was to equitably distribute the burdens of import competition while simultaneously effecting the rapid reemployment of dislocated workers and resources in more profitable and productive endeavors. The program has not attained these goals.

Until recently, firms and workers had little hope of qualifying for benefits. Recent Tariff Commission decisions have not significantly altered this prospectus. Uncertainty still pervades the process whereby workers and firms gain access to the program. Uncertainty is primarily caused by the rigid eligibility criteria contained in the TEA. However, the petitioning processes aggravate the problem.

Uncertainty of access can be reduced significantly by liberalizing the eligibility criteria and simplifying the petitioning processes. The latter can be achieved by consolidating the responsibility for handling petitions in a single Executive Branch organization.

Even if problems of access were solved, severe problems associated with the delivery of benefits to firms and workers would remain to prevent attainment of program goals. Workers and firms who are eligible to apply for adjustment assistance benefits now must traverse a labyrinth of statutory and administrative obstacles before actually receiving benefits. Consequently the TEA must be amended to provide program administrators sufficient with flexibility to effectively deliver firm and worker benefits.

The range of benefits available to workers and firms should also be expanded to provide for a broad range of economic situations. The present program cannot effectively deal with economic dislocations that occur in a generally unfavorable employment and business climate. Similarly, an improved program should provide special assistance to communities.

There is considerable opportunity for cooperation and coordination with the private sector to ease the burden associated with economic change. Corporate planning anticipates economic dislocations that may have severe consequences for workers and communities. Prior notification of such dislocations could improve administration of the adjustment assistance program. The government also must improve the data system that serves economic policymakers. A data system should provide sufficient early warning of economic dislocations to improve the capability of the adjustment assistance program.

A strong case can be made to provide adjustment assistance to victims of economic dislocations caused by loss of production for export. From the perspective of U.S. trade and investment policy, multinational corporate production shifts and acts of foreign governments that result in unemployment and community distress are not substantively different from those caused by import competition.

Finally, an adjustment assistance organization with budgetary control over all aspects of the adjustment assistance program, is an essential ingredient of an effective program. At present there is no cohesive adjustment assistance organization that can bear the responsibility for the success or failure of the program.

APPENDIX 16

[H. Con. Res. 546–549, 92d Cong., second sess.]

IN THE HOUSE OF REPRESENTATIVES, MARCH 1, 1972

CONCURRENT RESOLUTION

Whereas, in an increasingly interdependent world no longer dominated by the actions or authority of a few superpowers, the United States needs a foreign policy that will foster sustained, effective, and consistent relationships with other countries, based on sober assessments of long-term mutuality of interests; and

Whereas an international economic posture for the United States that looks beyond immediate issues to a workable pattern of worldwide fiscal, trade, and investment cooperation is essential to such a foreign policy; and

Whereas the ability of the United States to maintain an effective, long-range, and consistent foreign policy has been and remains periodically subject to disruption as a result of stresses felt by various sectors of the United States economy from foreign trade disadvantages; and

Whereas the experience of other nations in pursuing adjustment policies and devising mechanisms to deal effectively with similar stresses and dislocations may have pertinence for appropriate United States policy in this field; and

Whereas presently available means of adapting the United States economy to such stresses have been ineffective and inadequate and are in need of reexamination: Now, therefore, be it

Resolved by the House of Representatives (the Senate concurring), That it is the sense of the Congress that domestic policies which promote the economic strength of the United States are a necessary prerequisite to the effective implementation of a consistent and constructive foreign policy in the 1970's and beyond; and that the United States Government should exert every effort to examine and prepare workable, responsible, and efficient measures to promote the legitimate interests of American workingmen, consumers, investors, and business in order to be able to carry out a foreign policy which will promote the national interest and the achievement of balanced and stable world relationships.

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