

UNITED STATES GOVERNMENT

Memorandum

TO : Mr. McCracken

DATE: August 26, 1970

FROM : Hendrik S. Houthakker

SUBJECT: Analysis of Major Sections of the Mills Bill

A. The trade bill as reported by the Ways and Means Committee contains the following provisions substantially as requested in the Administration's bill.

1. Presidential authority for modest housekeeping reduction in tariffs.

- This would allow the President to make cuts of up to 20% or two percentage points. This would be used primarily in instances where U.S. tariff concessions would be required in compensation for escape clause action.

2. Facilitation of fair treatment of U.S. exports by giving authority to the President to retaliate against unjustified foreign actions, both in manufacturing and in agriculture. There would be similar authority against foreign subsidies and against unfair competition against U.S. exports in third markets.

3. Specific authorization of the funding of our participation in GATT.

B. Several other Administration provisions of the bill were adopted with modification.

1. The DISC proposal to give more favorable tax treatment to U.S. exports was accepted substantially as proposed. The major difference from the Administration bill is with respect to timing. In place of the Administration's proposal that DISC not begin until June 30, 1971 and then become fully effective, the Ways and Means bill has DISC begin December 31, 1970 but only at a 50% level for the first year, and a 75% level for the following two years. In 1974 it would become fully effective.



This does not seem an unreasonable method of implementation. We still have some questions, however, as to how strong a plus the DISC proposal should be considered, especially if Exim financing is likely to be expanded anyway. The Treasury estimates that DISC, when fully implemented, should increase exports by around \$1-1/4 to 1-1/2 billion per year. The following table gives the Treasury and Joint Committee Staff's estimates of revenue loss over the next several years.

<u>Year</u>	<u>Percentage of DISC Income Exempted</u>	<u>Treasury Estimate of Revenue Loss</u>	<u>Joint Committee's Staff Estimate of Revenue Loss</u>
(in Millions of Dollars)			
1971	50%	\$164	\$135-180
1972	75%	400	270-355
1973	75%	450	370-495
1974	100%	630	720-955

As these indicate, DISC will be a fairly expansive program.

2. American Selling Price. Administration proposal provided that Congress authorize President to modify U.S. Tariff Schedules so as to carry out provisions of two Kennedy Round Agreements abolishing ASP valuation on benzenoid chemicals (multilateral agreement), canned clams and wool knit gloves (bilateral agreement with Japan). Committee bill authorizes President to eliminate ASP pursuant to any agreements he may have negotiated (not excluding Kennedy Round ASP package) if he feels the concessions they provide in return are fully reciprocal. Because such changes are subject to Congressional veto by concurrent resolution within 60 days, the authority provided is weaker than the outright authorization to abolish ASP under agreements already concluded, requested by the Administration.

Administration also proposed that Congress authorize President to negotiate agreement abolishing ASP on rubber-soled footwear, not covered by the Kennedy Round, subject to provision that rates of duty substituted be not less than a fixed minimum. Committee bill specifically excludes

provision for rubber-soled footwear; any ad referendum agreement negotiated on these products would be subject to Congressional approval. This change largely vitiated the liberalizing intent of the Administration proposal on this product.

There is a substantial risk that the entire ASP section of the Committee bill will be taken out by the Senate, because of its objection to the fact that Congressional approval would be sought only ex post.

3. Escape Clause and Adjustment Assistance. The Administration's bill proposed removal of the requirement (for both escape clause action and adjustment assistance) that increased imports must be related to prior tariff reduction, and that for adjustment assistance the requirement that increased imports be a primary cause of actual or potential serious injury be loosened to require them to be only a substantial cause. These proposals are retained in the Mills bill. However, the latter requirement is also loosened for escape clause action. This has a serious disadvantage in that it removes the implication in the Administration bill that adjustment assistance should be used more readily than escape clause actions.

The Mills bill does provide, as the Administration requested, that the President, instead of the Tariff Commission, determines eligibility for adjustment assistance. The bill also requires that under a class 2 (more serious) Tariff Commission finding of injury, if the President fails to follow the Commission's recommendations, he must certify the eligibility of the firms and workers of the "industry" in question for adjustment assistance.

The Administration also requested that adjustment assistance be made available to separate units of multiplant companies. Instead the Mills bill provides that the relevant unit is that portion of a plant in which the article in question is produced. As Senator Javits noted this would represent a return to the segmentation provision of the original 1951 escape clause provisions which were expressly repealed in the Trade Expansion Act of 1967 and which "incorporates the principle of gerrymandering in our trade policy."

C. The one major request in the Administration's proposal which was not included in the Mills bill in at least modified form was for "a clear statement of Congressional intent with regard to non-tariff barriers to assist in our efforts to obtain reciprocal lowering of such barriers."

IV. Perhaps the most negative features of the Mills bill are the provisions not connected to the Administration's requests.

1. Textile and Shoe Quotas

The Committee bill provides that quotas, based on the average annual amounts imported during 1967-69, would have to be imposed on textiles and shoes unless "voluntary agreements" are negotiated with the exporting countries. The President would be authorized to increase these quotas by up to 5 percent annually after 1971. The quota provisions of the bill would expire on July 1, 1976, unless the President determined that it was in the national interest to extend them, in whole or in part, for periods not to exceed 5 years at any one time.

For 1969, textile imports were 28% higher than would be permitted under the quota in 1970. The Committee projects that for 1970, imports of wool textiles will be 20% below the quota. Imports of non-rubber footwear during 1970 are expected to run 52% above the proposed quota. In value terms, roughly 46% of these imports are from the EEC.

After the Administration's reluctant approval of the quota provisions, the Committee added spun fibers to the definition of textiles. At present, imports of spun fibers are about \$50M per year. The quota is estimated to permit \$3M in additional imports. Thus the provision must be regarded as not restrictive at present, but as an assurance to domestic manufactures who are concerned about possible substantial increases in imports in the future.

The President's actual power to exempt an article from quotas (when it is not disrupting the U.S. market, when the article is not available at reasonable prices or when an exemption is in the national interest) may be severely limited in practice because of the requirement that all proceedings under Title II be in accordance with the Administrative Procedures Act. This would entail notice, public hearings, and extensive documentation.

Implementation of the quotas on Textiles and Footwear is likely to require substantial increases in administrative expenditures. The OMB estimates that if Title II is implemented on the same basis as the Long Term Arrangement on Cotton Textiles by expanding Executive Order 11052, at least a threefold increase in staff will be required. In particular, the Commerce Department staff would

5

need to be increased from about 50 to 150 positions, while the total budget expenditures would increase from approximately \$700,000 to \$2M. Corresponding increases should be anticipated in the Department of State, STR, the Bureau of Customs, the Tariff Commission, etc. It may also be necessary to collect data on current trade and production, because Commerce is currently relying on data supplied by industry groups for the administration of LTA. OMB estimates a rudimentary data processing system may cost approximately \$20M.

7

6

2. "Basket" Provisions

The Mills bill provides for two types of Tariff Commission findings of injury. The first and weaker type (Class 1) would face the President with the same option as at present. However, the concept of injury which must be determined by the Commission to recommend action has been substantially broadened. The bill provides that without excluding other factors, the Tariff Commission "shall take into consideration a downward trend of production, prices, profits or wages in the domestic industry concerned, a decline in sales, an increase in unemployment or underemployment, an increase of imports, either actual or relative to domestic production, a higher or growing inventory, and a decline in the proportion of the domestic market supplied by domestic producers." This criterion is so broad that during an economic downturn almost any firm could qualify.

If such injury is found by a majority of the Commission than a majority of that majority can make an additional (Class 2) determination if

a) the ratio of imports to consumption was more than 15 percent in the year preceding the investigation, and the ratio had risen 3 percentage points in that year and five points in two years; or

b) domestic production of the article was declining or threatening to decline so as to threaten profits and employment or wages were declining or likely to decline substantially

and the (a) imported article was being sold at substantially lower prices than like American products, and (b) the foreign unit labor costs were substantially lower.

If Class 2 action is taken by the Commission, the President can still decide to take no action and submit a report to Congress within 60 days, but he will no longer have the option to take action other than that recommended by the majority of the Commission. Also, his failure to take action must be stated to be in the national interest. (This is also true in the case of a Class 1 trading), although , although he is not required to state the consideration which led him to conclude that this was so. Also, as noted above, in such an instance, the President would be required to certify eligibility for adjustment acceptance for the workers and firms in the industry under consideration.

3. Antidumping and Countervailing Duty Provisions

The Committee bill includes a number of provisions imposing specific time limitations within which the Treasury Department must render decisions on antidumping and countervailing duty cases. Although such a great speedup in the disposition of these cases would impose a substantial burden on the Treasury (an estimated increase of \$1 million per year in administrative costs), there seems to be widespread agreement that complaints about long delays in handling cases are valid and such a speedup is urgently needed.

The Committee bill extends the authority to apply countervailing duties to nondutiable imports. The Administration is not happy with this restrictive addition but will not oppose it, particularly since the additional requirement of a determination of injury by the Tariff Commission for this category of goods is likely to limit its application very substantially. (The Administration did request a clarification of the situation with respect to countervailing duties on articles subject to quotas or international agreements; a request reflected in the Committee bill's provisions giving the Secretary of the Treasury some discretion in applying countervailing duties in such cases.)

There is reason for concern about the impact on developing countries of the mandatory application of countervailing duties. The Committee report recognizes this problem, planning "to examine this question at a later date in connection with a general of problems affecting the developing countries."

(Review)

4. a. Furs: The 1951 embargo imposed imports of seven furs from the USSR and Communist China would be rescinded. However, a tariff quota of 4.6 million mink skins would be established. Within the quota, mink skins from countries enjoying MFN treatment would continue to enter duty free; mink skins from column 2 countries would face a duty of 30 percent ad valorem. Above the quota the column 1 rate would be 25 percent, the column 2 rate, 40 percent. Furthermore, the Kennedy Round reductions on mink garments, due to lead to a 10 percent duty in 1972, would be halted at the current 14 percent (50 percent for column 2 countries). These provisions are not considered to be restrictive at present because of the downturn in U.S. demand for mink. They could have a restrictive impact in the future, however, if domestic demand recovers.
- b. Glycine: A tariff quota for glycine of 1.5 million pounds would be established; within it the duty would be 8.5 percent; outside it, 8.5 percent plus 25 cents per pound. This provision would allow imports to continue at present levels subject to the present rate of duty; additional imports would be subject to the additional specific duty.

5. Petroleum Quotas. The "national provision" (sec. 232) of the Trade Expansion Act would be amended to preclude the use of tariffs to restrict imports.

Because of the recent Presidential decision, this provision loses most of its immediate potential impact. However, it does limit the President's options for dealing with situations in other industries. At the last meeting of the Oil Policy Committee, there was some disagreement over whether this would make impossible the auctioning off of import permits. The majority opinion was that it would not.

Appendix 1 gives estimates of the value of imports potentially covered by the basket provisions. Appendix 2 gives data regarding the textile and footwear quotas.

List of 4-, 5-, and 7-digit SIC Manufactured Product
Categories That Would be Covered Under the "15% Import/
Consumption Ratio and 2 Percentage Point Increase" Formula

1. The attached list of 54 product categories of 4-, 5-, and 7-digit manufactures represents those, based on data for 1968-69, on which quotas could be triggered by use of the proposed Ways and Means Committee formula requiring (a) imports to be 15.0% or more of consumption in the latest year, and (b) an increase in the ratio of imports to consumption over the preceding year of at least 2.0 percentage points. The value of imports of these product categories totaled \$3.4 billion in 1969.
2. This list was developed by ascertaining, first, the 5- and, where comparable 1967 trade and shipment statistics were not available, the 4-digit categories on which quota requests could be triggered by the formula. Second, all 7-digit products which were not part of the broader categories were located.
3. U.S. imports for consumption totaled \$35.9 billion in 1969. Imports of the products of the 422 4-digit SIC manufacturing industries reviewed were \$28.2 billion, or 79% of imports in that year.
4. The final column on the table represents estimates, supplied by the Business and Defense Services Administration, of the probable sensitivity to demand for quotas from the U.S. business community. The 1969 value of imports of those industries considered "likely" to request quotas was \$0.7 billion; those in the "maybe" category, \$0.7 billion; and the "not likely" group, \$1.5 billion. In addition, the textile items on the list totaled \$0.5 billion.
5. It should be noted that this analysis is based entirely on values; a similar list based on quantities would add other items such as nonrubber footwear, but it might well exclude some commodities now listed. It should also be stressed that systematic compilations of the value of shipments are not available from the Census Bureau for 1968-69 beyond the 4-digit level. The attached list might change if actual data at the 5- and 7-digit level, or more precise estimates, were available.
6. This analysis was developed largely from Bureau of the Census statistics. Unpublished product data from the forthcoming "U.S. Commodity Exports/Imports as Related to Output, 1967 and 1966" were used to get basic, reliably matched shipment and trade data for 1967. Industry shipment data for 1968 at a 5-digit level were estimated on the basis of 4-digit figures taken from the Annual Survey of Manufactures - M68 (AS)-1; 1969 shipment estimates were derived from these 1968 values by the use of data for the 2-digit major groups shown in the Survey of Current Business. In a few cases, estimates of shipments were based on expert advice from BDSA industry specialists.

Trade data for 1968 and 1969 came from Census publications "U.S. Imports for Consumption and General Imports, FT 210, SIC-Based Products and Areas,"

and FT 610 and unpublished tabulation EA 676, "U.S. Exports of Domestic Merchandise, SIC-Based Products and Areas." Consumption totals were developed by adding imports for consumption to shipments and subtracting exports. No adjustments were made for changes in inventories.

Prepared in the
International Trade Analysis Division
Bureau of International Commerce
July 25, 1970
Revised - July 27, 1970

List of 4-, 5-, and 7-digit SIC Manufactured Product Categories That Would Be Covered Under the "15% Import/Consumption Ratio and 2 Percentage Point Increase" Formula

SIC industry		Ratio of imports to consumption		Increase in percentage points from 1968 to 1969	Imports in 1969 (\$ million)	Sensitivity
		1969	1968			
20118 20138	}	25.3	21.4	+3.9	262	NL
2037135						
2034118, 2034129	}	25.6	22.8	+2.8	16	NL
2094361						
22116		21.0	18.8	+2.2	7	NL
		23.6	4.1	+19.5	1	NL
		17.3	12.9	+4.4	41	
2323049		33.3	23.5	+9.8	2	
2369, 23292 23392-3 22531, 22533	}	16.6	14.2	+2.4	424	
2392042-45						
281520-10						
281520-30						
		21.5	19.1	+2.4	10	
		42.4	37.9	+4.5	1	L
		40.0	37.0	+3.0	2	L
28195		22.5	17.3	+5.2	106	NL
2833		24.2	21.8	+2.4	127	NL
2899312		22.7	20.2	+2.5	3	NL
31117		33.3	29.5	+3.8	20	L
3262		44.4	40.5	+3.9	60	L
3263		36.2	33.3	+2.9	34	L

- continued -

List of 4-, 5-, and 7-digit SIC Manufactured Product Categories That Would Be Covered Under the "15% Import/Consumption Ratio and 2 Percentage Point Increase" Formula

SIC industry		Ratio of imports to consumption		Increase in percentage points from 1968 to 1969	Imports in 1969 (\$ million)	Sensitivity
		1969	1968			
33331	Zinc smelter products	15.2	11.1	+4.1	5	NL
3423255	Machine knives, except metalcutting	24.4	22.4	+2.0	6	L
3554081	Parts and attachments for pulpmill, papermill, and paper converting machinery	22.0	15.0	+7.0	18	M
3572003	Standard, nonportable, nonelectric typewriters..	15.1	10.3	+4.8	11	M
3574131-39	Calculating machines	61.6	54.3	+7.3	108	M
3579243	Parts and attachments for office machines other than for typewriters, calculating and accounting machines, and electronic computers..	67.3	53.8	+13.5	99	NL
36216	Electric motor and generator parts and supplies, except parts for land transporta- tion equipment motors	17.8	14.1	+3.7	32	M
3636	Sewing machines	52.2	49.2	+3.0	109	M
3642681, } 3642689 }	Nonelectric lighting equipment	27.8	23.3	+4.5	6	NL
36511	Household and automobile radios and radio- phonograph combinations	31.9	27.6	+4.3	373	NL
3651201, } 3651203 }	Household television receivers, black and white.	22.8	16.7	+6.1	152	NL
36514, } 36515 }	Audio equipment and accessories other than household and automobile radios and house- hold television receivers	34.8	24.6	+10.2	275	NL
3693	X-ray and electromedical apparatus	16.3	14.0	+2.3	29	NL
3751	Motorcycles, bicycles, and parts	38.4	32.9	+5.5	231	L
3799	Transport equipment, n.e.s. (snowmobiles, trailer chassis, etc.)	24.5	17.0	+7.5	124	M
3811341	Photogrammetric equipment	63.2	48.0	+15.2	1	M
3861110, 42-47	Photographic flash units and exposure meters ...	48.6	41.6	+7.0	7	M
3861181	Enlargers	38.6	35.4	+3.2	2	NL
3871153	Clock movements, complete but not cased	30.9	24.6	+6.3	8	NL

- continued -

List of 4-, 5-, and 7-digit SIC Manufactured Product Categories That Would Be Covered Under the "15% Import/Consumption Ratio and 2 Percentage Point Increase" Formula

SIC industry		Ratio of imports to consumption		Increase in percentage points from 1968 to 1969	Imports in 1969 (\$ million)	Sensitivity
		1969	1968			
3913011,15	Diamonds, cut or polished	119.7	103.4	+16.3	217	M
3913031	Lapidary work of natural precious and semi-precious stones other than diamonds	99.2	94.9	+4.3	36	M
39142	Table flatware (imports mainly stainless steel) ..	17.3	11.2	+6.1	35	L
3942	Dolls and stuffed toy animals	24.3	13.6	+10.7	51	M
39421	Fishing tackle and equipment	21.2	18.2	+3.0	31	L
3949337	Baseball mitts and gloves	67.0	55.8	+11.2	14	L
3949355	Ice skates	46.0	30.9	+15.1	7	L
3949371,75	Snow skis and water skis	37.2	28.8	+8.4	14	L
3949373	Winter sports equipment other than skates and snow skis	65.7	56.5	+9.2	14	L
3949381	Tennis, badminton, and related equipment	48.3	41.2	+7.1	11	L
3963021	Buttons of casein and casein compounds	20.2	16.1	+4.1	2	M
3963061, } 3963098 }	Button blanks and molds; buttons other than of metal and plastic	26.6	22.6	+4.0	4	M
39642	Needles, pins, and similar notions, except slide fasteners	15.2	12.0	+3.2	25	L
3991311	Artists' brushes and hair pencils	46.2	39.8	+6.4	6	L
39992	Coin-operated amusement machines	36.4	31.6	+4.8	8	NL
39996	Furs, dressed and dyed	51.1	41.1	+10.0	14	L
3999921	Hairworks, switches, toupees, and wigs	81.7	73.9	+7.8	135	L
3999942	Tobacco pipes	30.7	25.8	+4.9	6	M
3229131-38**	Handmade table, kitchen, art and novelty glassware ..	42.4	25.8	+4.1	35	L

* Sensitivity to requests for quotas - L = likely; M = maybe; NL = not likely.

**Data estimated by BDSA.

Supplemental List of Product Categories Whose Manufacturers
Would be Likely to Apply for Quota Protection if, or as Soon as,
They Qualify Under the Formulas

As the proposed Mills Bill recognizes, import injury is predominately a product problem rather than an industry-wide problem. Present limitations in U. S. foreign trade statistics classification preclude rapid identification, and statistical quantification, of all of the product groups whose manufacturers would qualify for quotas under the proposed formulas. We have listed below some additional product groups, derived from BDSA industry experience, that probably qualify but which require further investigation since foreign trade data are not readily available. Administration of the proposed formulas will require more detailed import statistics collection to identify problem areas concealed by such "basket" trade categories.

1469 48 Mink furskins, undressed	40 Sheet glass
40 TV tuners	57 Band instruments
26 Loudspeakers	<u>358</u>
9 TV picture tubes, b & w	
25 Diodes and rectifiers	
17 Resistors	
32 Capacitors	
10 TV & radio antenna	
25 Transformers and coils	
15 Textile dyeing and finishing machinery	
11 Pianos	
3 Pipe and reed organs	

Appendix 2

The section on quotas for textiles and footwear provides for the establishment of quotas limiting 1971 imports of any particular category of textiles and non-rubber footwear from any given country to their 1967-69 average level. Thereafter, the maximum permissible rate of increase in any one type of import is 5 percent.

The quotas do not apply to any and all articles subject to "voluntary agreements" which result in limiting imports. Further, specific articles may be exempted from the quotas if:

- a. the imports of those articles do not disrupt the domestic market.
- b. The President declares that it is "in the national interest" that the articles be exempted.
- c. the domestic prices of the articles involved rise to unreasonable levels.

According to the Committee's own Report, the 1967-69 average imports were:

1. 1,390 million square yards equivalent for man-made fiber textiles.

2. 184.5 million square yards equivalent for wool textiles.

Again according to the Report, 1969 imports were:

1. 1,782.6 million square yards for the man-made fibers.

There fore, 1969 imports were 28 percent higher than would be permitted under the quota in 1971.

2. 191.1 million square yards for the wool textiles which were therefore running 3.5 percent above the proposed 1971 quota. For 1970, the Committee, based on first half of 1970 figures, expect annual imports of:

a. 2,400 million sq. yds. for man-made fibers which is 73 percent above the 1971 quota .

b. 150 million sq.yeds. for wool textiles which is some 20 percent below the quota.

Turning to footwear (non-rubber), the Report provides the following data on imports:

1961 Imports		40 million pairs
1967 "	133	" "
1968 "	181	" "
1969 "	200	" "
1970 expected imports	260	" " "

The implied 1967-1969 average import is therefore 171.3 million pairs. Hence:

1. 1969 imports were running 16.75 percent above the proposed quota.
2. 1970 expected imports are running 51.78 percent above the proposed quota.

According to the SCB, we have the following (not necessarily comparable) data on domestic production.

U.S. production of leather shoes and slippers in millions of pairs;

1966	641.7
1967	603.3
1968	642.4
1970 (1-5)	240.2 (not s.a. 576.5)

U.S. Production of Wool Broadwoven Goods
(in millions of lin. yds.)

1966	264.9
1967	237.7
1968	253.3
1969	227.6
1970 I	59.6

If we use these figures, one finds that the proposed quotas make up the following percentages of domestic production (not consumption) in 1967-69 (average):

Man-made fibers	28 %
Wool textiles	78 %
Footwear	28 %

THE WHITE HOUSE
WASHINGTON

8

OCT 1970

~~SJ~~
PM

October 7, 1970

MEMORANDUM FOR DR. MC CRACKEN

FROM: PETER FLANIGAN

pmf

Herewith the position on the Trade
Bill suggested by Carl Gilbert, with a memo in
response from me.

Enclosures

October 7, 1970

MEMORANDUM FOR CARL GILBERT

FROM: PETER FLANIGAN

As you no doubt know, consideration of the Trade Bill is now off until the Congress reconvenes on November 16th. Therefore, it is unnecessary for us to formulate a position on the Trade Bill, as suggested in your memorandum of October 6th. Based on the situation as it exists in mid-November we can at that time formulate an Administration position.

OFFICE OF THE SPECIAL REPRESENTATIVE
FOR TRADE NEGOTIATIONS

EXECUTIVE OFFICE OF THE PRESIDENT

WASHINGTON

20506

October 6, 1970

MEMORANDUM FOR

Honorable Peter M. Flanigan
Assistant to the President

SUBJECT: Administration Position on the Trade Bill

1. Attached is a short statement of the Administration position along the lines we discussed this morning.

2. Are you familiar with Hugh Scott's statement on the floor October 2 (Congressional Record, S 17007) supporting the House Ways and Means Bill, urging early Senate action by amendment to social security and welfare reform measures, and proposing to add amendments covering steel, electronic products, glass and mushrooms?

Carl J. Gilbert
Special Representative

Attachments:

1. Suggested Administration Position
2. S 17007, Congressional Record

October 6, 1970

Suggested Administration Position on the Trade Bill

The Administration supports the enactment of its proposed trade Bill (H.R. 14870) with the addition of that portion of Title II of H.R. 18970 pertaining to textiles and apparel (except Section 205(a)), Title IV relating to the Domestic International Sales Corporation, and Section 341 relating to adjustment assistance under the Automotive Products Act. The Bill now pending in the House of Representatives (H.R. 18970) is opposed by the Administration (1) because it incorporates objectionable features not found in the Administration Bill and (2) because it makes objectionable changes to the Administration Bill; in each case, believed to be contrary to the Administration's aims and purposes.

Note to P.F.:

(1) Certain relatively minor additions were made by the House Ways and Means Committee which were accepted by the Administration as workable, viz., Section 301 (anti-dumping), Section 302, (countervailing duties), Section 311 (Tariff Commission enlargement), and Section 342 (classification of agricultural products).

It might be worthwhile therefore in the response to note that Sections 301, 302, 311, and 342 of H.R. 18970 are also acceptable.

(2) The provisions of Title II giving the President wide discretion as to exemption by product, by category, and by country, etc. may well be rendered ineffective by Section 205 (a) making the rule-making provisions of the Federal Administrative Procedures Act applicable to such determinations having in mind the possibility of court review of such decisions and other inherent time-consuming procedures. Hence the exception for Section 205(a).

who argue for a troop reduction also recognize that we need to maintain a flexibility in our overall defense posture so that we can beef up our commitment to NATO whenever necessary. For example, in present conditions in the Middle East, it may well be desirable for us to strengthen our commitment to the Mediterranean section of the NATO command.

Indeed, this need for flexibility can be cited as one of the reasons for reducing our commitment in those areas where it is not wholly justified. Thus it is likely, Mr. President, that if the burdens of our commitment in the central region were not so great we would be in a better position today to deal with the circumstances in the Mediterranean region.

Mr. President, most of those who argue against a reduction of United States forces in Europe concede when pressed, that such a withdrawal is inevitable at some future date. However, they argue the time is not yet right. But this becomes a delaying tactic simply without end. The time never seems to be right. And thus, today, we still maintain virtually the same force level that was established at the close of the Korean War, when the Soviet threat to Western Europe seemed particularly great.

Recently, however, there have been some slightly encouraging signs. The Nixon administration, while defending the status quo, has let it be known that the status of our commitment beyond July first of 1971 is not certain. Particularly because of this, and also because European officials apparently have come to finally recognize the growing congressional concern, the NATO ministers are presently conducting a fresh review of alliance defense needs, with particular emphasis on finding ways in which Western Europe can carry a greater share of the burden. Hopefully, they will come forward with genuinely productive recommendations. There is a likelihood, however, that they will come up with half-way measures which really would not solve the problem, but will have the effect of further encouraging delay in the withdrawal of U.S. forces. We will have a much clearer notion of the intentions of the Western Europeans when the NATO ministers meet this December.

It is also to be noted, that the NATO council has officially offered to enter into negotiations with the Warsaw Pact for a mutual reduction of military forces on both sides of the Iron Curtain. Departing from past behavior, the Warsaw Pact has indirectly indicated an interest in negotiations. There is no solid evidence yet, however, that the Warsaw Pact is really serious about this. But, if the members of the pact do prove to be serious, interested in negotiation, then a further delay at the beginning of an Amer-

force levels as American troops were withdrawn. But this seems most unlikely.

Also, given the current status of Sino-Soviet tensions, and the status of the Russian economy, it can be argued that a reduction in American force levels would prompt a similar reduction in Soviet troop concentrations in Eastern Europe.

The argument that there should be no withdrawal until negotiated mutual reductions are achieved has been used and abused for a decade. Given the fact that the United States is a part of, and not the whole of NATO, this argument has never been all that persuasive. And it has worn increasingly thin over the years.

In any case, Mr. President, the continuation of the status quo very much longer is simply not tolerable in my judgment. Changing realities in Europe and changing priorities here at home require that the beginning of a phased withdrawal of a substantial portion of our NATO contingent be initiated at the earliest practical date.

THE TRADE BILL AND QUOTA PROTECTION

Mr. SCOTT. Mr. President, the House Democratic leadership has apparently made a decision to postpone action on the pending trade bill until after the November elections. Unwilling and afraid to stand up for the American workers whose industries have taken a vicious beating, the House decision can only be viewed as one that will cost them dearly in the coming elections. There seems to be a feeling on the other side of the Hill that the pressure for this vital legislation will diminish after November 3. I want to put them on notice, however, that the pressure is on right now for this bill, and they should consider it immediately.

Specifically, the bill would limit the import of shoes and textiles next year to their average annual volume in the 1967-69 period. After 1971, these quotas would increase or decrease in proportion to domestic consumption. However, such quotas would be waived for any country agreeing to voluntary limitations on its exports to the United States.

The bill also makes it easier for other industries facing import competition to obtain quota protection. This would be accomplished by broadening the escape clause, which permits quotas, tariff increases, and other relief measures.

I support these provisions but believe we ought to go further to include other industries that have been hurt by imports. Steel, for example, is literally

dustries not suffered from the rising costs of imports? And what about nails, slide fasteners, mink, and fabric for shoes? Has not Pennsylvania's economy been hurt by import problems here? In these points only to signify that no industry deserves special treatment. All have been injured and all are entitled to some relief. The present trade bill offers relief, but does not necessarily provide it. We need a stronger bill. I tend to work for one.

Several Senators have informed me their intentions to offer the trade bill as an amendment to either the social security or welfare reform measures. Although I would prefer to have full hearings held by the Finance Committee, time is short and I will support any move to bring the trade bill directly to the floor of the Senate. At that time, I will work closely with other Senators, as I feel as I do, that we have got to put a stop to this exporting of U.S. jobs. It is difficult to understand how Congress cannot support its own domestic industries when, for example, a foreign legislature directs its negotiators to resist a move by our Government to limit the export to us. It is about time we set up for our industries. Immediate House passage of the trade bill would be a good first step. For my part, I will urge the Senate to consider the bill at the earliest possible moment. I urge Senators to support this effort.

LAWRENCEVILLE SUMMER INTERNSHIP PROGRAM A SUCCESS

Mr. PROXMIRE. Mr. President, this year, for the second year in a row, I am pleased to have a Lawrenceville summer school intern working for me in a volunteer capacity. For 2 weeks this young man, Mitch Garrett, together with two young ladies who also participated in the program, combined hard work with a series of impressive interviews with prominent Washington figures—leading and doing at the same time.

This is the type of program that is most beneficial to all concerned. It helps Members of Congress who are fortunate enough to have summer interns to get their difficult job done. And it helps the interns themselves by giving them a first-hand insight into our Federal Government. It would be mighty hard to pick up any other way.

I was particularly impressed by the caliber of the interviews these Lawrenceville interns had with figures both within and outside Government.

I ask unanimous consent that the list of these sessions be printed in the Record.

There being no objection, the list was ordered to be printed in the Record, as follows:

LIST OF SESSIONS

24 SEP 1970

THE WHITE HOUSE
WASHINGTON

September 22, 1970

*you will be in PM
Raleigh, N.C. on Oct 8.
Earliest possible time of
return to Washington is
5:38 pm*

MEMORANDUM FOR MESSRS. KENNEDY, STANS, BURNS, SHULTZ, MC CRACKEN

FROM: PETER FLANNIGAN 

You will recall that at the San Clemente meeting between the Quadriad and the White House Liaison Committee of the Business Council and subsequently between the Liaison Committee and the President it was agreed that a seminar on the economy would be held at the next meeting of the Business Council. That seminar is scheduled for the morning of Saturday, October 17 in Hot Springs.

It is my understanding that the five addressees of this memorandum have agreed to represent the Administration at the seminar. The representatives of the Business Council are Donald Burnham of Westinghouse, James Roche of General Motors, Roger Milliken of Deering Milliken, S. D. Bechtel, Jr. of Bechtel Corp., Fred Lazarus, Jr. of Federated Department Stores, and an as yet unnamed representative of the steel industry.

The Chairman of the Business Council panel will be Don Burnham. His current thought is that each panelist will make a presentation of not more than 12 minutes. Since this would involve 2 hours of presentations, I am urging that these presentations be drastically reduced so that the subsequent discussion and in-depth investigation of issues and possible differences can be the major focus of the meeting.

The Business Council panel will be in the Roosevelt Room at 4:30 P.M. on October 8 to discuss the organization of the program. I trust you will be able to join at that time.

You will further recall that the President asked that the panelists meet with him on Sunday, October 18, either in Washington or Camp David, depending on his schedule. At this meeting he hoped to review the conclusions arrived at in the seminar. That is, he looks forward to discussing not only positions agreed upon but also those on which there was a substantive difference of opinion.

THE WHITE HOUSE

WASHINGTON

-2-

If the seminar is to be meaningful it is important that a limited number of important issues be pursued. I would suggest that among those be:

1. The direction of the economy,
2. The effectiveness of the Administration's policies on wage increases, and
3. International trade and the United States' competitive position.

If opening statements could be either eliminated or limited to 5 minutes and the discussion concentrate on these or one or two other subjects, it may be the seminar would be an effective way of getting across the Administration's viewpoints. I would appreciate any ideas as to format and organization of the seminar which you might have. I am sure that Mr. Burnham would be happy to cooperate with us in any arrangement that we think appropriate.

For your information I am enclosing a study which Mr. Roche submitted to the President on inflation.

Enclosure

INFLATION AND NATIONAL POLICY

August 1970

INFLATION AND NATIONAL POLICY

I. Introduction

Our nation is now midway in the fifth year of an inflation that has reduced the buying power of the dollar by over 20 percent. There have been relatively few periods in our history when so much has been lost so quickly by so many. In fact, no group in our society has gone completely unscathed, while for many on pensions or other relatively fixed incomes inflation represents a continuing unjust and crushing tax.

The thesis of this paper can be simply stated. The nation is now at a critical juncture in its fight to moderate price inflation. While excess demand forces have been reduced, cost-push pressures have increased. To meet this threat to the achievement of price stability there is an urgent need for strong national leadership and a clear statement of the national interest. Time is already short but it is not too late to reflect national policy in labor negotiations which will establish trends in compensation for two or three years ahead.

II. Summary of Conclusions

The conclusions of this analysis may be summarized as follows:

First, in spite of a tight monetary policy and restrained federal expenditures which brought the economy perilously close if not into recession, prices have continued to increase rapidly, wage rates for the general economy have continued their near-record rate of increase and negotiated wage rate increases have established a succession of new highs.

Second, there is scant evidence at best that these cost-push pressures are easing. Negotiated first-year increases in hourly compensation now average close

to 10 percent. Moreover, the majority of the agreements commit business to continuing high wage-cost push pressures for two or three years ahead. Both union and non-union labor is affected by these trends.

Third, management and union negotiators cannot bring about the needed wage-cost discipline without strong support from the President and his top aides. A plea by management for moderation is completely ineffective -- interpreted by labor as merely a self-serving ploy to increase profits. It is quickly ridiculed and lightly dismissed. Labor leaders obviously could not take this initiative. In spite of what they may recognize to be in the best interest of their membership and the industry, they are under constant pressure from the rank and file to demand increases equal to or better than the highest prior increase.

In short, in the absence of a clear and strong statement by the President of the national interest in moderation, the collective bargaining process in a period of inflation has a built-in and near irresistible bias toward accelerating the trend of upward wage-cost pressure. Both labor and management representatives need a forthright expression of political leadership at the highest level of our government in order to reach the broad base of working people in the United States.

Fourth, to be fully effective, it is essential that the President reaffirm in the strongest possible terms the importance of relating negotiated settlements to advances in national productivity. This is not a recommendation for wage and price controls. Nor is it a recommendation that the President, the CEA or any other Administration representative cite a specific productivity number -- inevitably opening up a counter-productive numbers game. However, it would be perfectly in order for the President to note that

in the recent past the rate of productivity improvement has been very close to zero and that we should strive to get back to the long-term rate of about 3.0 percent per year -- and that this, whether we like it or not, is what establishes the trend of the national well-being.

Fifth, the urgency of such a statement is underscored by the relaxation of monetary and fiscal policy in recent months. There is a human and political limit to the use of stringent monetary and fiscal policies -- a limit which the Administration recognizes. When the national unemployment rate reaches as high as 5 percent, there are groups in the labor force which bear a much larger burden. For example, the non-white unemployment rate is above 8 percent.

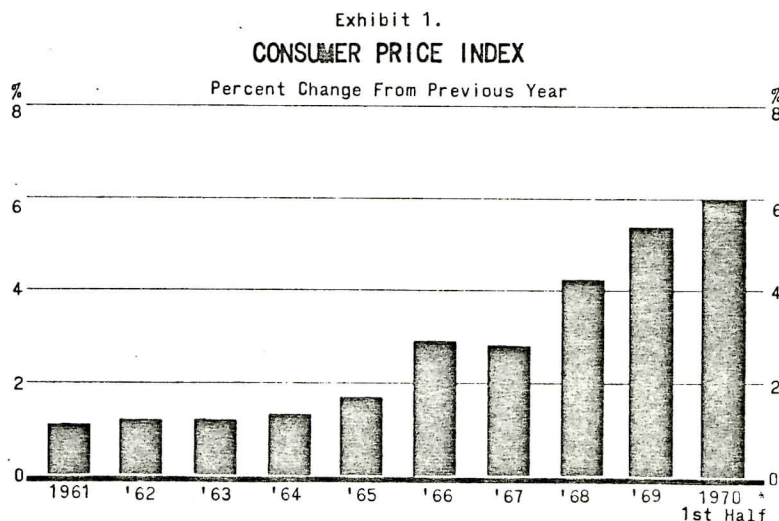
Family
Assist
Plan

Sixth, the President could well point out that the present rate of inflation also poses a real threat to existing jobs and future job opportunities by reducing the ability of U.S. industry to compete for world markets as well as to meet the rising tide of imported products. Relative wage costs are a key factor in this competition to hold existing markets (and jobs) and seek out new opportunities (and jobs).

Seventh, the Administration must recognize that the public has had its fill of inflation and the ratcheting of cost and price increases. There is no question that the public is seeking and would support the President in this effort. At this stage, a firm policy statement could do more to dispel the continuing widely-held expectations of further inflation without raising the threat of recession than any other national policy course now open.

III. The Penalties of Inflation

It is difficult to exaggerate the seriousness of the current price inflation. By most past standards current price increases are large and there is little evidence that the increases are moderating. These trends are measured in many ways but the way in which they touch most of us is best reflected in the widely published Consumer Price Index of the Bureau of Labor Statistics. As is evident in Exhibit 1, the rate of inflation accelerated throughout the last half of the 1960's and well into 1970. In the first six months of 1970, the Consumer Price Index averaged 6 percent above the same period a year earlier. This was a larger increase than in any year in the past decade.



Source: Bureau of Labor Statistics

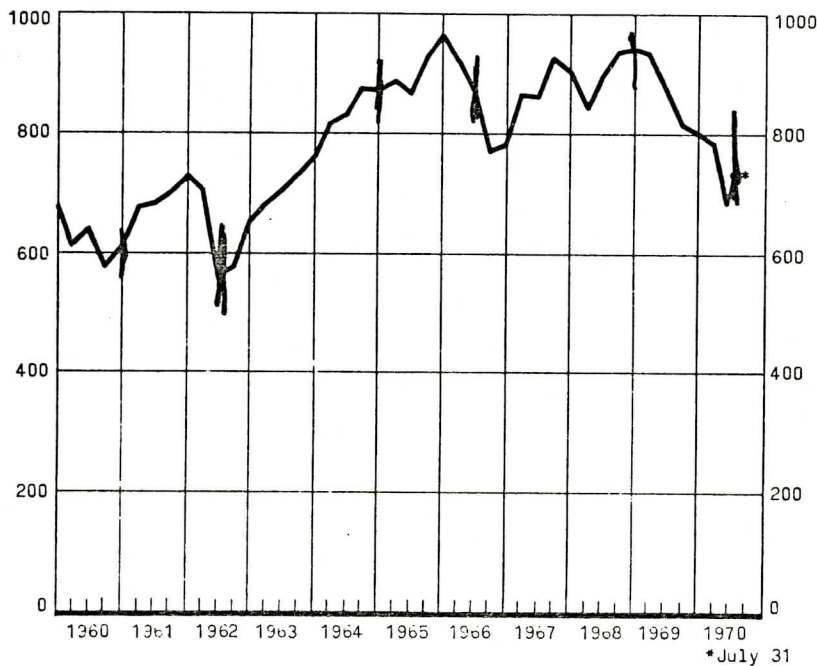
A. The Erosion of Values

Perhaps enough has been said through the written and spoken word about the unjust burden which inflation imposes on various groups in society to render another recital unnecessary. But it is important to point out that inflation harms us all -- in varying degrees it confiscates some of the income or the assets of each of us. Inflation undermines savings incentives, encourages speculation, distorts economic activity and impairs growth.

For example, the smaller investor, who typically maintains his savings in savings bonds or savings accounts, finds very often that the interest return is insufficient to compensate for ongoing inflation much less for the savings function which is so crucial to economic growth.

And, of course, those who invested in negotiable government or corporate bonds have faced the choice of foregoing liquidity or absorbing a capital loss of as much as 30 percent or more.

Exhibit 2
DOW-JONES INDUSTRIALS
QUARTERLY CLOSING



With few exceptions, the investor in common stocks has paid a heavy penalty. Admittedly, his function is to assume risk and possibly, therefore, he need not be a source of concern. This view, however, fails to appreciate the pervasive impact of a stock market decline on the general public. A wide segment of our society is now involved, either directly or indirectly, in the stock market, from the small odd-lot trader who invests his limited savings to the large professional and semi-professional investors of others' funds -- pension funds, union benefit funds, mutual funds, university endowments, investment trusts, and so on.

All have suffered. Inflation adds to the usual array of business risks, casting a depressing pall over expectations and discouraging the essential and productive risk taking function while encouraging unproductive speculation.

Exhibit 2 depicts how severely the market has suffered since late 1965. After flirting briefly with the 1,000 mark in December 1965, the Dow-Jones index of 30 industrials has generally moved on a downward trend. At the end of July 1970 the index stood at 734, or 24 percent below the high of 969 set at the end of December 1965. In connection with the Dow-Jones index, the stocks included in this index are generally of high quality and are widely held by individuals and conservative investment funds.

The Standard & Poor's industrial average, in spite of the recent recovery in stock prices, remains more than 20 percent below its 1968 level -- a decline superimposed on the 10 percent decline in the purchasing power of the dollar.

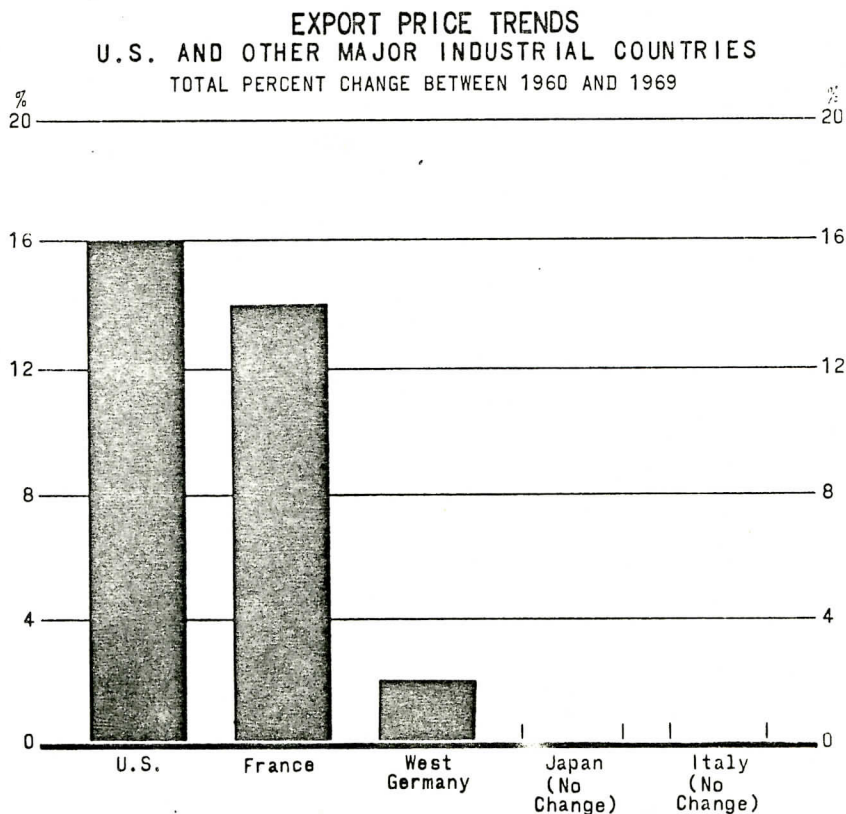
That inflation hits particularly hard at older people dependent on pensions goes without saying. What should be equally clear is that our current inflation is also discriminating against many working people. The big wage gains are in those areas of our economy where major unions exercise substantial control -- the obvious examples being construction and trucking. Lower income workers, lacking in bargaining strength, now appear to be falling behind.

B. Inflation and Trade

The economic effects of the current inflation are already painfully evident in the decline in our foreign trade balance. It is dodging the real issue to assert that the inflation in the United

States as measured by consumer prices has not been greater than in other industrialized countries. As indicated in Exhibit 3, the index of U.S. export prices increased 16 percent during the 1960-1969 period. This trend, while only moderately unfavorable in relation to France, is substantially unfavorable in relation to West Germany, Japan and Italy -- all three of which have been increasingly vigorous competitors in world markets. In addition, the case of France was influenced by a special factor. Between 1968 and 1969, French export prices rose by 7 percent, or approximately one-half of the increase over the entire 1960-69 period. This unusually large year-to-year jump was primarily the consequence of the widespread general strikes of 1968 and the sharp upward wage adjustments which followed.

Exhibit 3.



It is also obscuring the issues in the U.S. world trade position to assert that our world competitive position is improving because hourly wage costs in the United States are rising at a slower percentage rate than in most other countries. The fact is that because the current hourly compensation rate in the United States is so high in level relative to rates paid in other countries, the absolute wage difference is generally increasing in spite of the relatively higher rate of percentage increase in most other industrial countries. It is the trend in the absolute difference in the cost of manufacturing and distributing a specified product sold competitively in world markets that establishes the comparative advantage in the product.

Exhibit 4 provides a sample of automotive hourly compensation in the United States and overseas. With overseas labor rates generally less than 50 percent of rates in the United States, even if the percentage increase in U.S. hourly compensation were at half the rate of those in the overseas countries, the compensation cost disadvantage of the United States automotive industry would be increasing in absolute terms.

EXHIBIT 4

HOURLY COSTS INCLUDING FRINGE BENEFITS

OF AUTOMOBILE WORKERS IN SELECTED INDUSTRIAL COUNTRIES

(Overseas data are as of January 1, 1970; U.S. data are as of December 1969)

	Total Hourly Labor Cost including Fringe Benefits as a percent of U.S. total Hourly Labor Cost *
	%
United States	100
Italy	48
Germany	47
France	34
United Kingdom	30
Japan (est.)	25

* Inclusive of all social charges made by government for payment of employee benefits.

In point of fact, as indicated in Exhibit 5, the labor cost disadvantage of the United States has been widening in absolute dollar terms. Between 1965 and 1970, the United States automobile industry added \$1.29 an hour to its hourly labor costs. Clearly, this was well in excess of what overseas automobile manufacturers added to their labor cost. Moreover, this absolute widening of our competitive disadvantage took place even though, in percentage terms, there appears to be an improving trend for the U.S. producer.

The preceding evidence runs counter to the popular misconception that the gap between the labor costs of producing products such as automobiles in the United States and abroad is narrowing. In reality, the situation has been growing steadily worse from a competitive point of view.

EXHIBIT 5

INTERNATIONAL TRENDS IN HOURLY LABOR COSTS IN AUTOMOTIVE INDUSTRY (a)
[1965-70; Japan 1963-68]

	<u>Percent Change</u>	<u>Dollar Change</u>
	%	\$
United States	30	1.29
United Kingdom	32	.47
West Germany	50	.80
France	35	.56
Italy	61	1.02
Japan (b)	60	N.A.

Note: Data Include Cost of Fringe Benefits with the Exception of Japan.

(a) Overseas Data are as of January 1, 1970 and U.S. Data as of December 1969.

C. Inflation and Corporate Profits

The inflation penalty has had an increasingly adverse impact on corporate profit rates, although the impact has varied markedly from industry to industry. Exhibit 6 traces the profit experience measured in terms of the sales margin for all manufacturing for the period 1965 through 1969. The motor vehicles and equipment industry, also shown in the exhibit, experienced one of the sharpest declines. The profit margin for the motor vehicles and equipment industry has declined by over one-third and for all manufacturing by almost 15 percent. Net profits of the four principal passenger car manufacturers in the United States declined by more than \$700 million over the same period -- a decline of over 23 percent.

The persistent upward cost pressures of the past five years were accompanied by rising sales volume over most of the period. In the past year, however, the profits of manufacturers have been further assaulted by falling volume. For example, the index of total manufacturing production (FRB index, 1957-59=100) declined from a peak of 176 in July 1969 to 168 in July 1970. Over the same period, production in the motor vehicles and equipment industry declined from 174 to 165. Upward cost pressures and declining volume are the opposing blades of the profit cutting scissors.

EXHIBIT 6

% NET PROFIT AFTER INCOME TAXES TO SALES

ALL MANUFACTURING CORPORATIONS VS. MOTOR VEHICLES AND EQUIPMENT INDUSTRY

(1965 Through First Quarter of 1970)

<u>Year</u>	<u>All Manufacturing %</u>	<u>Motor Vehicles and Equipment %</u>
1965	5.6	7.2
1966	5.6	6.2
1967	5.0	4.9
1968	5.1	5.7
1969	4.8	4.7
1st Quarter		

IV. National Price Trends

A. The Record Through February 1970

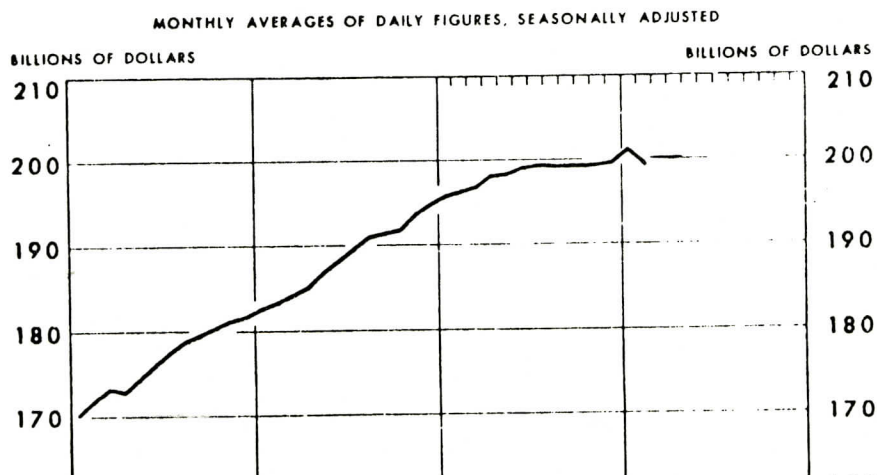
The movement of prices from 1965 at least through mid-1969 and possibly through the third quarter was importantly influenced by demand. Limitations put on the expansion of the money supply and the rise of federal expenditures in 1969, strong but essential first steps, have effectively softened the demand forces.

Exhibit 7 shows the trend in the money supply as usually measured by the Federal Reserve (Currency plus Demand Deposits). Increases of close to seven percent occurred in both 1967 and 1968 with shorter term increases running at substantially higher rates. In contrast the reversal in Federal Reserve policy resulted in a zero rate of growth in the money supply from July 1969 through February 1970.

Fiscal policy underwent just as dramatic a reversal. The turnabout from a federal deficit of more than \$25 billion in the 1968 fiscal year to a surplus of over \$3 billion a year later was an extreme but necessary complement to monetary policy. Of more recent origin, the cutback in military expenditures has helped to arrest the upward movement of final demand.

EXHIBIT 7

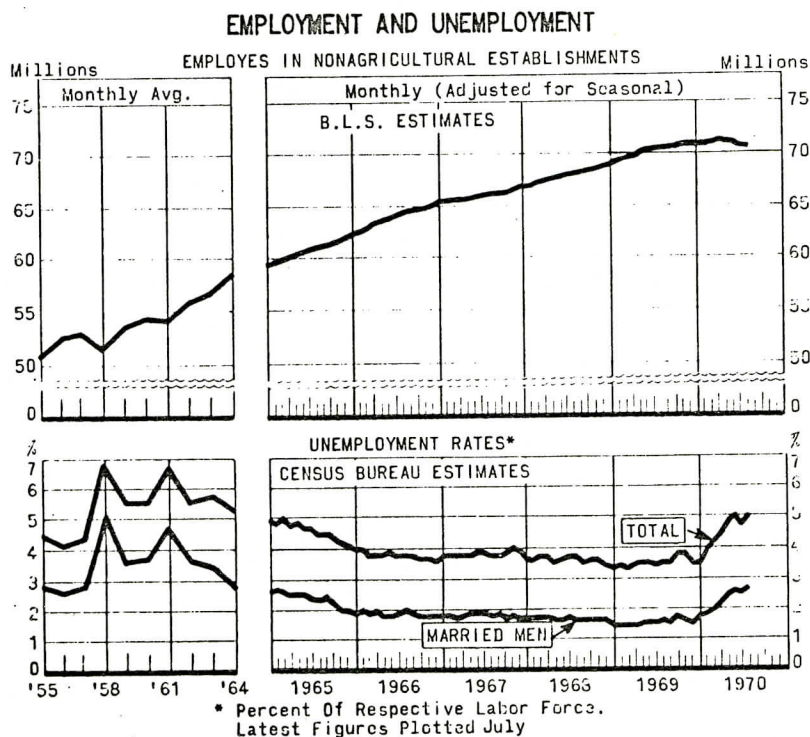
TOTAL MONEY SUPPLY



These highly restrictive policies were clearly effective in moderating demand. The real value of Gross National Product actually declined slightly from the third quarter of 1969 through the first quarter of 1970 and data for the second quarter indicate at most a very modest upturn from the first.

Along with this reduced demand pressure has come not only reduced economic growth but growing unemployment as well. Unemployment which remained well under four percent of the labor force through 1969 increased rapidly to five percent in May and is again at this rate in July as shown on Exhibit 8. This is, of course, the well-recognized risk in the monetary-fiscal approach to inflation control. These are powerful economic weapons which have the capacity to convert expansion into recession -- and quickly.

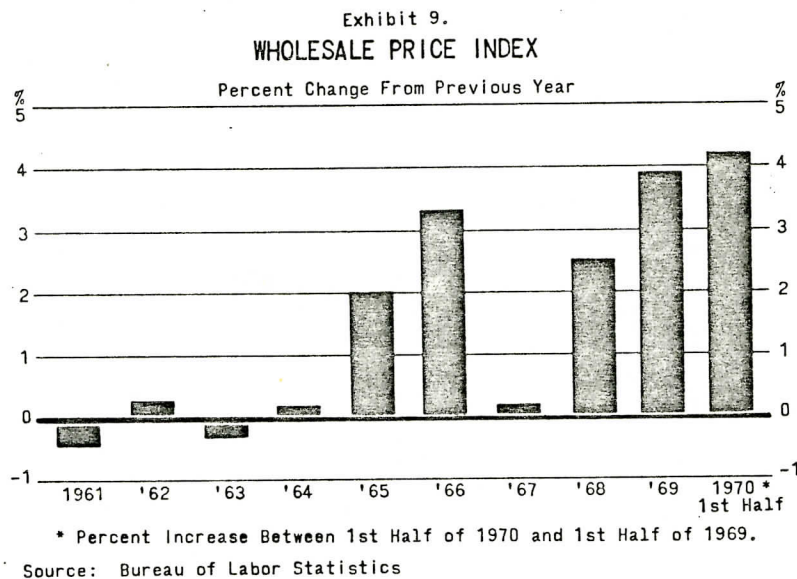
Exhibit 8.



Source: Department of Labor

These restrictive policies have not yet been reflected in an easing price trend. As is evident from Exhibit 1 (pg. 4) the annual rates of change in the Consumer Price Index are still clearly at unsatisfactory levels.

Exhibit 9, dealing with the Wholesale Price Index, also offers little evidence that inflation is giving way to stability. In fact, compared with the first six months of 1969, this index in the first half of 1970 showed an increase of 4 percent -- the highest year-to-year increase in the past decade.



While members of the President's Council of Economic Advisers and others in the Administration see in the current price trends a lessening of inflationary forces, the most that can be said

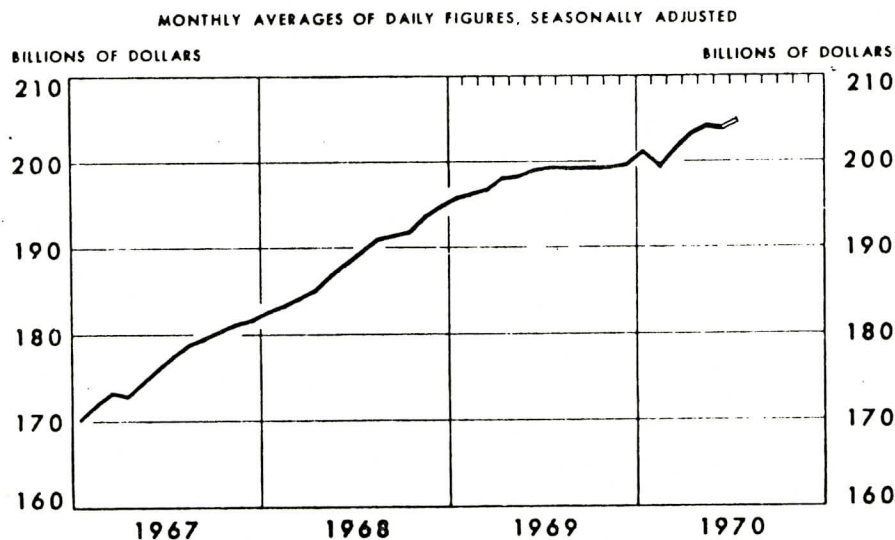
speculation about the timing of the moderation of price trends in relation to monetary and fiscal policy has become a popular game, the fact is that a substantial and unsatisfactory inflation of both wholesale prices and retail prices continues -- and this in spite of reduced levels of economic activity and high and growing unemployment.

B. 1970 Economy Trends -- Cost-Push Pressures

Since February 1970, monetary policy has been substantially relaxed with the money supply increasing at an annual rate of 6 percent. (Exhibit 10) In addition, there was a small deficit in the 1970 fiscal year which compares with a small surplus at the close of the 1969 fiscal year. This small change in combination with the \$8 to \$10 billion deficit now being estimated for fiscal year 1971 clearly marks an easing trend.

EXHIBIT 10

TOTAL MONEY SUPPLY



Latest Figure Plotted July (Est.)

This change in policy points up the fact that there is a real question concerning how far the economy can go as a practical matter in easing price pressures by reducing output and employment. The unemployment rate of 5 percent in May and again in July is higher than was anticipated at this stage of the deflationary effort. Moreover, and most important, this overall rate tells only a part of the story. Unemployment among minority groups is at a much higher rate while necessary reductions in employment have delayed programs to employ and train "hard-core" unemployed.

Most important, however, there is no evidence that, with rising unemployment, there has been any relaxation in the annual rate of compensation increases in major collective bargaining settlements. These pressures are continuing and in some key areas accelerating. This is most evident in the recent settlements reported in the construction and trucking industries. The overall statistics -- Exhibit 11 -- also bear out this fact. In the first six months of the year, the median rate of increase in wages and benefits in major settlements was almost nine percent per year.

EXHIBIT 11

ANNUAL RATE OF COMPENSATION INCREASES
IN MAJOR COLLECTIVE BARGAINING SETTLEMENTS

	<u>All Settlements</u>			<u>National Teamsters Settlement</u>	
	<u>1st. Qtr. 1969*</u>	<u>1st. half 1970*</u>	<u>1st. half 1970*</u>	<u>Original Settlement</u>	<u>Revised to Chicago Settlement</u>
Wages and Benefits As a % of Beginning Wages and Benefits (Life of Contract). . .	7.4	7.3	8.9	8.8%	13.6%
Wages only.	7.1	6.6	8.9		
First Year Wages.	8.3	8.8	10.2		
Construction.	14.0	17.1	15.8		

MANUFACTURING

Wages only			
- Life of Contract. . . .	5.9	4.7	6.0
- First Year.	7.1	7.6	7.6

* Cost of living allowances dependent on future increases

Of course, average compensation paid all workers is not increasing as rapidly as these figures on the cost of major settlements would indicate. Not all industries or workers receive increases in a given year. More important, the decline in business activity has reduced overtime work and premium pay and thus has led to some downward pressure on gross earnings of the average worker.

The depressing effect of the cyclical slowdown on gross worker earnings, however, must be approached with care since it tends to mask the true scope of contemporaneous increases in basic wage rates.

As the Council of Economic Advisers stated in their recent

Inflation Alert:

"...there was a distinct slowdown in the rate of increase [of compensation per man-hour] during the first two quarters of 1970. The increase during the first quarter of 1970 was 6.8 percent and in the second quarter 5.1 percent (all at annual rates). The slowdown in the rate of increase appears, however, to be related in large part to the elimination of overtime and changes in industry mix."

This is evident in Exhibit 12 which shows average hourly earnings for manufacturing workers both inclusive and exclusive of overtime payments.

EXHIBIT 12

PERCENT CHANGES IN AVERAGE HOURLY EARNINGS AND COMPENSATION

PER MAN-HOUR IN MANUFACTURING

(1965 Through First Half of 1970)

	Gross Average Hourly Earnings	Average Hourly Earnings Excl. Overtime	Compensation Per Man-Hour
	Annual % Increase	Annual % Increase	Annual % Increase
1965	3.2	2.9	2.5
1966	4.2	3.2	4.6
1967	4.0	5.0	5.0
1968	6.4	5.9	7.1
1969	6.0	6.2	6.4
1st Half 1970/1st Half 1969.....	5.7	6.3	6.7
Percent Increase			

The first column shows average hourly earnings on a "gross" basis which reached a peak rate of increase -- 6.4% -- in 1968. In contrast, the first six months of 1970 were only 5.7 percent above a year earlier, reflecting the marked downtrend in overtime and thus in overtime premium payments since 1968.

The second column shows that average hourly earnings excluding overtime have been rising at an increasing rate throughout the entire period, reaching a peak 6.3 percent in the first half of this year. This, of course, reflects the continuing increases in wage settlements.

The third column shows the annual percent increases in "total hourly compensation" which includes an estimate of the cost of so-called "fringe benefits". This is the real cost of doing business. Even with the downturn in overtime, total compensation per hour has increased more rapidly than either of the wage rate series. Between 1965 and the first half of 1970, the increase in this series has been over 31 percent.

As is evident, there is no indication that the increase in total compensation per man-hour -- the most comprehensive measure of cost-push pressures -- shows much tendency to decline. Indeed, the 6.7 percent increase between the first half of 1969 and the first half of 1970 was in excess of the 6.4 percent increase recorded during 1969.

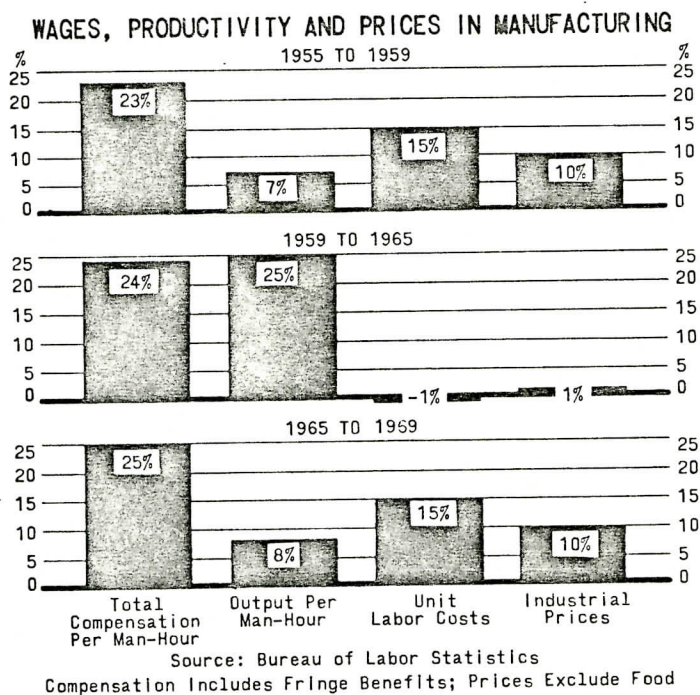
In addition to the persistent increase in total compensation per man-hour, there has been a slowdown in productivity growth through the first quarter of 1970 which has magnified the cost-push pressures. In 1969 the growth in output per man-hour for the total private economy almost ceased and, as a result, unit labor costs rose 6.5 percent.

This was followed by a decline of 2.5 percent in output per man-hour in the first quarter of 1970. As a result, unit labor costs increased by an extraordinary 9.6 percent.

The recent decline in productivity was reversed in the second quarter of 1970. Output per man-hour increased at an annual rate of 3.1 percent; however, compensation per man-hour increased at an even faster annual rate of 5.1 percent. As a result, unit labor costs were up about 1.9 percent.

These trends do not augur well for the attainment of price stability. As is demonstrated in Exhibit 13, there is a close relation between wages, productivity and prices.

Exhibit 13.



In the period from 1955 to 1959 total compensation per man-hour increased 23 percent, output per man-hour rose only 7

15 percent Industrial prices

increased 10 percent. When compensation per man-hour increases no faster than output per man-hour -- as in the period 1959 to 1965 -- unit labor costs and prices remain stable. For the period 1965 to 1969, however, total compensation per man-hour has increased by 25 percent as compared with an increase in output per man-hour of only 8 percent. As a result, unit labor costs and prices both increased -- by 15 and 10 percent, respectively.

In addition to wage increases, there have been persistent pressures from rising prices of materials and components used in manufacturing. The magnitude of these pressures is illustrated in Exhibit 14. From 1965 to 1969, the wholesale price index of materials and components for manufacturing increased 9 percent and showed a further rise in the first half of 1970. Looking at some of the materials used in manufacturing, the index of steel mill products was up 10 percent from 1965 to 1969 while the first half of 1970 was 6 percent over the same period a year earlier. Non-ferrous metal prices were up 19 percent from 1965 to 1969 and 18 percent during the first six months of 1970. Although there has been some recent softening in this latter group, the July index of nonferrous metal prices was still 12 percent above July 1969.

EXHIBIT 14
WHOLESALE PRICES OF MATERIALS
AND COMPONENTS FOR MANUFACTURING
- Indexes, 1957-59=100 -
(1965 Through First Half of 1970)

<u>Year</u>	<u>Total Materials & Components for Manufacturing</u>	<u>Steel Mill Products</u>	<u>Nonferrous Metals</u>
1965	102.0	103.3	115.2
1966	104.0	104.7	120.9
1967	104.7	105.9	120.9
1968	107.1	108.5	125.1
1969	110.8	113.7	137.4
<u>1st Half</u>			
1969	109.6	111.7	131.4
1970	114.6	118.8	154.7
<u>Percent Change (%)</u>			
1965-1969	9	10	19
1st Half of 1969 to 1st Half of 1970	5	6	18
<u>Memo:</u>			

Ultimately, since payments to individuals represent about three-quarters of the total value of all final products, the price increases in materials and components, no less than the prices of finished products, reflect upward wage-cost pressures. Thus, the great challenge is to find ways to moderate wage pressures and, in so doing, also temper the upward push of material and component prices.

V. The Alternatives for Public Policy

That the nation's anti-inflation policy must be reconsidered is evident from the widespread dissatisfaction of consumers, labor, and business with the continuing inflation of prices and the erosion of earnings and financial assets. Monetary and fiscal policy in 1969 have been used as fully as possible. The decline in industrial production and the rise in unemployment which resulted carry a threat of cumulative decline.

The relaxation of monetary-fiscal policy in the first half of 1970 was constrained -- consistent with the needs of the time. Regardless of other steps that may and should be taken, there is no substitute for controlling federal government expenditures and limiting the expansion of the money supply.

Finding ways to raise the rate of productivity improvement represents a second line of attack which few would question.

Management, through cost control, through constant attention to improved product design, manufacturing methods, and processes and through continued investment in technological advance, will no doubt continue to make a major contribution. There is an equally great opportunity for labor to make a contribution. The reduction of absenteeism, of work stoppages and, most importantly, greater concern for product quality are all activities by which efficiency is improved and advances in money wages are converted into advances in material welfare. The willingness of union leaders to cooperate in realizing

The government, with the cooperation of business, can also contribute to the growth of productivity through its manpower training programs which aim at raising the skills and mobility of the nation's work force. A continued need exists for such programs, especially for the disadvantaged segments of our society. Obviously, manpower training programs have long-range social implications of the utmost importance to our society's well-being. They also have relevance for the nation's rate of productivity advance.

These are all appropriate matters of concern to the President's recently created Commission on Productivity. The Commission -- another highly valuable weapon in the fight on inflation -- has an outstanding opportunity to focus national attention on improving productivity as a means of achieving growth and reducing unit costs. Our recent productivity record has been poor. The need to emphasize improvement is urgent. The Commission can stress the fundamental economic truth that the improvement in national well-being depends on rising productivity. It can point to the long-standing leadership of the U.S. in productivity, to the growing challenge to this leadership from foreign countries and the rising competitive threat to U.S. products and jobs both at home and abroad.

However, even under the most favorable circumstances, it is unlikely that a rate of productivity advance can be achieved in the near future which will come close to matching the extraordinary increases in money wages and benefits awarded out of collective bargaining agreements in the recent past.

There is, therefore, an urgent need to find additional ways to break the cycle of successively larger negotiated increases. While building for productive gains in the years ahead, we must not lose sight of the losses we may suffer through excessive wage and benefit bargains in the months ahead.

It is very clear that there are definite limits to what management and labor representatives alone can do to bring about a more moderate advance in hourly labor cost. Both are caught up and are being drawn along by the momentum of current trends. Labor representatives are expected to come to the bargaining table with a more costly list of demands that can be accepted. It is management's function to resist. Under the circumstances of national bargaining, a request by management for moderation in bargaining is treated by labor as a transparent ploy -- a device to profiteer at labor's expense. It will be publicly ridiculed and quickly dismissed.

Labor representatives, also, have limited negotiating freedom in the context of national bargaining. As representatives of their membership, their function is to obtain the most favorable agreement possible. Even though they may be aware that more moderate demands are in the interest of their membership and the industry, rank and file pressures may preclude their accepting an agreement that falls short of the most recent and most costly settlement. Thus, a union leader on his initiative cannot ask the membership to accept a lower wage settlement on the basis of his evaluation of the national interest. In fact, union members appear increasingly willing -- and often anxious -- to reject agreements which fail to measure up to their expectations. These expectations constitute their "guidelines".

The President has made the determination, for valid reasons, that it would not be in the best interest of the nation to institute direct wage and price controls. The likelihood is that this coercive approach could not be administered, or that, if it could be administered, would only substitute new inequities for old. Beyond this, with cost pressures continuing to build up rapidly, there is not the time required to install this cumbersome control machinery. Nor, based on prior experience, is a temporary wage-price "freeze" an alternative that holds out promise. Again, the rigidities of this approach

and the resulting distortions and inequities would invite evasion and abuse.

There remains, however, an urgent need to find ways to appeal to the rank and file union members and to state as vigorously as possible the national interest in non-inflationary wage agreements. There is need for an alternative to a "guideline" based on the latest and the highest wage award -- an alternative which will command a broad base of public support. This is a task to which the President must be willing to offer the prestige of his office -- nothing short of his personal commitment could be expected to succeed.

There is good reason to expect that strong Presidential leadership would be actively supported by the public. There is ample evidence that the public has had its fill of inflation and the resulting erosion of savings and other money assets.

A Presidential statement need contain no threats or implication of coercion. It would be a frank appeal to national pride and enlightened self-interest. It would stress the fundamental economic truth that the improvement in the national welfare depends on improving productivity. It could point to the long-standing leadership of the U.S. in productivity, to the growing challenge to this leadership from foreign countries and the loss of markets and jobs.

The message which needs telling and retelling is twofold. First, the rapid rate of increase in productivity of other industrial countries around the world presents an increasingly serious challenge to the United States. It is a challenge we must work, and work hard, to meet. Second, in order to translate rising productivity into expanded job opportunities, wage and fringe benefit increases must not outpace the gains in productivity. We must resist the temptation to dissipate these gains in productivity through inflationary settlements which weaken rather than strengthen U.S. industry's world competitive position. By

controlling unit costs an enduring foundation is established on which the nation can build, providing expanded opportunity and a rising standard of living for all.

Vigorous leadership by the President would make a significant contribution to current collective bargaining efforts. The importance of this cannot be overemphasized. Current collective bargaining is being conducted against a background of highly inflationary settlements and rank and file expectations are also high. Moreover, agreements reached now will set the pattern not only for 1970 but for 1971 and 1972. These agreements will establish the level of expectations in subsequent labor negotiations and wage and benefit offers to both union and non-union workers. Thus, agreements reached in the near future can strengthen or undermine the monetary-fiscal stabilization effort both now and in the future.

A strong statement of national need would provide management and labor representatives alike with a broad "point of reference" without committing the President to a specific "guideline" number. It would give representatives on both sides an approach to rank and file members who ultimately must approve any agreement reached. Under the current circumstances it is the most important step that can be taken to move the economy away from inflation toward non-inflationary long-term growth. The need is urgent. The time is short.