cuss how the dumping of surplus exports on third markets could be discontinued.

The first round of discussions on non-tariff-barriers to trade should be opened. This would provide a chance for the American Administration to put on the table some of the complaints against EEC discussed in Congress.

Time seems to have come for the EEC Commission to draw up a list of all those commodities where quotas still exist and analyse the reasons for these restrictions of trade.

The real issue for the United States is not a deficit in the balance of trade but rather a pronounced strain on the balance of payments. Therefore, it should be investigated if this strain can be relieved in two important areas: firstly, by higher contributions to development aid by the more prosperous industrial nations to ease the load on the American Government. And secondly, by a realistic burden sharing within NATO as part of the more political measures having an effect on US balance of payments.

Summary

The EEC Commission has to try to do a better selling job in the United States—not just in Washington and New York—to counter the trend to neo-isolationism. If representatives of the US-Government and the Common Market countries could find their way to round table again this might lead to an exercise in de-escalation; even if there will not be spectacular results as we have seen in the Kennedy Round. In other words, if the Six, the would-be-members and the rest of EFTA would be ready to talk about free trade with Japan and the United States, Mr Wilbur Mills might indeed have achieved something positive with his initiative.

Trade Policies in the United States

by Professor Robert G. Wertheimer, Cambridge, Mass. *

Speakers at the Annual Foreign Trade Convention, held before 2000 assembled members last November in New York, pleaded with even greater than usual fervor for realistic policies and new initiatives in the international field. Above all, the maintenance and expansion of policies for freer international trade, finance and investments being the backbone of the unprecedented world economic growth, was recommended and the recent proposal of President Nixon to establish a new mechanism of planning and coordination of all foreign economic policies was fully supported. The Convention called for a rebalancing of the Balance of Payments, a reduction of military spending abroad to a minimum consistent with national Security, and the freeing of capital exports for direct investment from existing restrictions. Finally, it approved the concept of generalized tariff preferences for developing nations but firmly rejected all legislative plans for mandatory import restrictions such as quotas.

General Trends

The U.S. continues to realize the ever growing importance of world trade which in 1970 again expanded at much faster rates than its domestic economy. While competitiveness in foreign markets was maintained, rapidly rising imports, particularly of textiles and shoes, brought on turmoil in Congress responding to strong industrial and labor demands (the first time in the post-war period) for protection. General increases in unemployment in 1970 only added momentum to these pressures. The many protectionist demands submitted to Congress simply reflect the growing—sometimes desperate—pressures from competitive imports produced no less efficiently than similar products made in the U.S. due to the internationalization of technology operated at

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* Babson College.

1 U.S. exports increased by 17 p.c. over 1969, against a growth in the GNP by only 5.4 p.c. in monetary terms. World exports expanded to § 280 bn or 11 p.c. above 1969.
very low wage costs\(^2\). While this mood is not one of isolationist revival, it reflects the growing disappointment about the lack of foreign understanding of U.S. problems and the continued denial of true reciprocity on the part of some trading nations\(^3\). The international position of the dollar is considered to be strong but a further strengthening of all currencies within the International Monetary Fund is viewed as one of the more urgent objectives.

The U.S. Trade Balance

According to latest data available up to the end of September, the U.S. trade balance significantly improved in 1970 over 1969, achieving a merchandise trade surplus of $3 bn on an annual rate (against a gain of only $0.6 bn in 1969). Commercial exports were running at $42.7 bn or 17 p.c. above 1969, with machinery, chemicals, aircraft, steel and coal achieving the major gains in European and Japanese markets. Increased shipments of soybeans and animal feed added to the rise of farm exports though at somewhat lower than average rates of gain.

The value of imports at $39.4 bn was 10 p.c. above 1969, consumer products gaining further and accounting for one-half of the total advance. Heavy demand for car imports with the German share holding its own (after three successive annual declines), contributed much to this gain even before the General Motors strike when foreign car sales climbed to 20 p.c. of the total\(^4\). Footwear imports also increased their share in the U.S. market while capital goods imports expanded by another 15 p.c., now accounting for 6 p.c. of total U.S. equipment purchases.

In spite of rising total exports, the U.S. share in world exports of manufactures continued to decline from 21 p.c. in 1969 to 20 p.c. of the total in 1970, this being the lowest share in a decade. Non-electrical machinery exports increased at only one fourth the rate of that of competitors and the shares of electrical machinery and transportation equipment also slumped.

The deficit on the liquidity balance (defined as U.S. liabilities to foreign residents and official agencies) climbed to a high of $7.2 bn in 1969 (against a small surplus in 1968). The borrowing of Eurodollars to the tune of several billion by U.S. parent banks from their foreign branches in response to tight money, but also a decline in the purchase of U.S. securities by foreigners, etc., brought on this large deficit.

The official balance, on the other hand, for similar reasons but in reverse, showed a decline in liabilities to official dollar claimants and achieved a surplus of $2.7 bn (against a surplus in 1968 of $1.6 bn). The large demand for dollars abroad in order to purchase Eurodollars, to benefit from the high rates they paid, shifted privately and officially held dollars into these short-term lending instruments. Viewing the deficit from the basic balance position showing a deficit of $3.5 bn, the surplus earned on the goods and services account, amounting to $4 bn, was insufficient to finance private long-term capital outflows and government foreign spending.

Liquidity and Official Balance

Data available so far for 1970 lead one to expect a much larger surplus of $7 bn on the goods and services account chiefly as a result of a surplus of $3 bn on the merchandise account (against $0.6 bn in 1969). Private capital movements, however, will be larger as result of Eurodollar re-payments to foreign branches totalling $6.5 bn in 1970. Assuming the gradual resumption of foreign buying of U.S. securities in response to the improving stock market and some favorable shifts between liquid and non-liquid assets, the liquidity deficit should be reduced to $5.5 bn in 1970 (based on unchanged government spending abroad since 1969).

On the official reserve transactions balance, the surplus of $2.7 bn in 1969 will not be repeated. The result will be rather disappointing—exactly due to the return flow of Eurodollars now being soaked up by foreign Central Banks. This deficit, however, should be held to below $3 bn due to the liberal use of U.S.-owned reserves for payment—at $3.3 bn—, the utilization of a portion of Special Drawing Rights and the traditional year-end “window-dressing”.

For 1971, we should expect further gains in the surplus on the merchandise balance, probably to $4 bn which would push up the surplus on the entire goods and services account between $7.5 and $8 bn. At the same time, deficits, on both private capital and government foreign spending accounts, should decline for two reasons. Firstly, the deficit-creating return flow of Eurodollars will have slowed down while the recovering U.S.

\(^2\) U.S. export industries provide, it is estimated, two million industrial jobs including shipping and services. As to imports that could be produced domestically (75 p.c. of total imports), protectionists argue that “if all these goods were produced here, they would create 2.6 million jobs”: A fatal view for the International practitioner which, though, with its popular appeal, cannot be ignored.

\(^3\) Particularly, the vast field of non-tariff protection—foreign export subsidies, the effects of the value-added tax and various other discriminatory though secretive attitudes—amounts to a systematic evasion of the true GATT spirit on the part of some members and by far exceeds in its effects the “Buy American” provisions.

\(^4\) Foreign car sales constituted 14 p.c. of total U.S. sales until the end of September.