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UNITED STATES DEPARTMENT OF AGRICULTURE

U.S. INTERNATIONAL POLICY FOR THE 1970's

Comments by William R. Pearce
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During the past year we have seen far reaching changes in international economic relations. It is clear that we are now in a period of transition between two eras.

The past quarter century has been a period dominated and shaped by U.S. policies and leadership. We are now entering an era in which responsibility for the world trading system will be shared by three major industrial centers--Europe, acting increasingly as a unified economic power, Japan and the United States.

The new era will likely be one of increasing economic interdependence. Since World War II we have made considerable progress in trade liberalization. Extension systems of quantitative trade controls --a legacy of depression and war--have been swept away. Tariffs have been reduced to relatively modest levels. A vast international capital market has developed within which funds flow easily and rapidly.

The multinational enterprise has emerged as a powerful influence in spreading modern technology, management and capital resources throughout the world. These developments have brought enormous benefits but they have also intensified problems of domestic and international adjustment. New policies and new arrangements are needed to facilitate these adjustments.

Perhaps the most dramatic evidence of that need was the series of monetary crises culminating in suspension of convertibility of the dollar into gold and other reserve assets on August 15 of last year. This event precipitated negotiations for a restructuring of international monetary arrangements that have provided a framework for trade and investment for a quarter of a century.

Under these arrangements--established at Bretton Woods after World War II-- countries agreed to maintain fixed exchange rates allowing their currencies to fluctuate within narrow limits. While there was provision for adjustment of exchange rates in cases of fundamental disequilibrium, primary reliance was to be placed on internal measures--domestic monetary and fiscal policies--to maintain balance of payments equilibrium.

But countries committed to economic growth and full employment were not always able to balance their external accounts with these policy tools and, during the 1960's, a number resorted to large, destablizing devaluations. Surplus countries, on the other hand, were reluctant to appreciate their currencies, and thus exerted pressure on the payments positions of their trading partners. From the beginning, the system depended on the willingness of the U.S. to supply reserves needed for expansion through continued balance of payments deficits. The responsibilities placed on the U.S. became incompatible with its changed position in the world economy. The time had come to initiate fundamental reform.

Since the dollar was the center of the system--the main reserve and transaction currency--the U.S. could not effectively devalue unilaterally. What was needed, as a first step toward reform, was multilateral agreement on a realignment of exchange rates providing a significant dollar devaluation. This was accomplished with the Smithsonian Agreement on December 18. Participants in the Smithsonian agreement also accepted the concept of wider bands--that is, exchange rates would be permitted to fluctuate over a wider range around the newly established rates. They also agreed that discussions should be undertaken promptly to consider reform in the international monetary system over the longer term. These discussions will be pursued in the coming months.

We do not yet know the exact nature of the system that will emerge from these discussions, but it seems clear that the new system must provide a more balanced role for the U.S. and for greater exchange rate flexibility. Frequent, small, and timely changes in exchange rates can smooth the external adjustment process, accommodating differences in national price levels and providing a more equitable basis for international competition.

This seems an important point. The continued overvaluation of the dollar has undermined the competitiveness of U.S. exports and intensified import competition on a broad scale. This has had important domestic implications for the maintenance of liberal trade policies. There has been great pressure for restricting imports and for subsidies and various forms of indirect financial aid to exports. The leadership of organized labor, once a staunch supporter of liberal trade, is now supporting import quotas and broad restrictions on foreign investment. I do not mean to imply that this is all--or even primarily--attributable to an exchange rate problem. But a smoothly functioning external adjustment process could do much to ease the strain.

At the same time there is a critical need to consider fundamental changes in the structure and functioning of our domestic economy. Here I would like to mention several recommendations of the President's Commission on International Trade and Investment Policy--the so-called Williams Commission--that have received surprisingly little public attention.

A major consideration here is the rate at which advantage can shift in a highly integrated world. Rapid change in patterns of trade can produce severe problems for firms and workers in sectors of the economy that cannot adjust quickly and smoothly. These problems will exist whether the balance of trade or payments is in deficit or surplus. They cannot be resolved through exchange rate adjustment. A different set of policy tools is needed.

This lies close to the heart of labor's changing attitude toward trade policy. Workers possess substantial stakes in their skills, jobs, homes and communities. It is neither fair nor very realistic in political terms to expect those who are displaced by imports to bear the cost of policies that benefit the economy as a whole. The adjustment assistance program enacted as a part of the Trade Expansion Act of 1962 has proved woefully inadequate in smoothing the transition of these workers to new jobs and new homes. The Williams Commission has proposed far-reaching restructuring and improvement of the program.

But the Commission also recognized that changes confined to the adjustment assistance program itself are not likely to be sufficient to accommodate the demands of competition in the world we are likely to experience in the 1970's. The program represents a major step in the improvement of public policies designed to cope with change. It has served--and can better serve--to reduce conflicts between foreign and domestic economic policies. But, the program is inherently a reaction to events that have already occurred; it cannot anticipate and in itself cannot create jobs and investment opportunities. We may find that more comprehensive industrial and manpower programs and policies are needed for this purpose. The Williams Commission suggested that "the government could undertake a variety of measures to remove structural impediments to the mobility of American labor and capital and anticipate future adjustments... Elements of such a policy would include: the provision of information on likely trends in American and foreign production and employment patterns; identification and government encouragement of promising new areas of productive activities; greater coordination of existing as well as new government programs of regional, community, business and manpower development.

Japan has shown us the effect government involvement in industrial planning and growth can have on competitiveness. Japan has achieved unprecedented growth in the past decade. In part, this results from the fact that it started with low wage rates and has restricted increases to growth in productivity, but its success also results from a unique relationship between business and government and from its willingness to give trade and economic development a high priority in its national planning.

I am not suggesting that the goals and supporting policies adopted by Japan are appropriate here. Instead, I am suggesting that Japan has shown us that it is possible to define economic goals; to identify and support the development of industries likely to be competitive; and to smooth the flow of resources from declining industries to those with potential for growth. Our challenge is to forge policies appropriate to our society that can contribute in the same way to our competitiveness in the 1970's.

I have touched here on two major policy areas that need urgent attention: the twin problems of external and internal adjustment. Improvements in these areas could have an important effect in facilitating the comprehensive trade negotiations on which we are now embarking.

Last week, as you know, the U.S. and the European Community published a declaration in which they agreed to initiate and actively support multilateral and comprehensive negotiations in the framework of GATT beginning in 1973--subject of course to such internal authorization as may be required. It was agreed that the negotiations would cover agricultural as well as industrial trade--an important point for the U.S. A similar declaration was made by the U.S. and Japan. Other countries were invited to associate themselves with these policy statements.

The importance of this commitment should not be underestimated. The European Community is in the process of adding 4 new members. The community also will conclude special trade arrangements with several other European countries. The new negotiation will take place while these changes are being made. It will offer an opportunity to minimize their adverse effects on our trade. At the same time, it will support world trade generally through a further reduction in barriers.

Thorough preparations will have to be made this year. In the coming months we will be analyzing and evaluating, in GATT alternative techniques for handling the complex problems to be dealt with in these major negotiations.

It is important at the outset to establish broad objectives. The special high level trade group within the OECD, in which Ambassador Eberle represents the United States, has been considering a number of key questions. What are our objectives for tariff and nontariff barriers in industrial products? How can we include agricultural trade in a meaningful way? What are the relationships between trade and investment? Between trade and balance of payments objectives? At this point we do not have the answers.

We have made remarkable progress during the past 25 years in liberalizing trade in industrial products. We have concentrated primarily on tariffs and quotas. With trade less restricted by these barriers, a variety of nontariff measures are now assuming greater importance. We will have to develop new techniques and modes of negotiation to cope with these problems. Because nontariff distortions are so varied and complex it is difficult to frame a meaningful advance delegation of congressional authority to the President to negotiate in this area. On the other hand, if we carry out negotiations to the point where the elements of an authorization are clear we run the risk of criticism for presenting a fait accomplit. Clearly a close working relationship between the Executive Branch and the appropriate Congressional committees will be needed to resolve the problem.

Many nontariff measures are well known and have burdened traders for years. Others are relatively new. Still others are now just emerging as future problems. Environmental control and pollution abatement, for example, are becoming serious concerns not only in the U.S. but throughout the world. Measures governments are planning and introducing to cope with these problems can have profound effects on trade and investment.

If we require our industries to use expensive equipment and techniques to reduce pollution in the production process while other Governments do not place similar burdens on their industries, ours will suffer a competitive disadvantage. Although countries differ in their pollution absorption capacities and environmental quality goals, the situaiton could be eased by harmonizing national policies.

The method of financing is important. The U.S. considers that, subject to certain exceptions in hardship cases, it is sound economics to require that the polluting industries pay the costs of control and reflect these costs in product prices. Fortunately, there appears to be widespread agreement internationally on this principle. But if other governments should decide to finance the required changes in production processes out of tax revenue so that their firms need not bear the burden directly, international competitive relationships could be greatly affected. Environmental control programs are still in their early stages in many countries. This offers us an unusual opportunity --if we act promptly--to negotiate basic guidelines that will prevent problems before they develop.

On a more general level, we need to know how ambitious we can realistically be in these forthcoming negotiations. The Williams Commission conceived the task to be one of coping with certain urgent international economic problems and preparing the way for the elimination of all barriers to international trade and capital movements within the next 25 years. Most tariffs, they believed, could be progressively eliminated over the next 10 years and all tariffs over the next 25. Ralph Dahrendorf, a member of the Commission of the European Communities has recently suggested a North Atlantic free trade area. These are bold proposals. We need to consider them seriously.

If we adopt an ambitious approach we will need to reconcile a major reconcile a major reduction in trade barriers with avoidance of undue disruptive effects on workers, communities and firms. Adjustment assistance and the other measures I mentioned earlier can provide a partial answer. A flexible time-frame can also soften the burden. But there will no doubt be cases where temporary trade restrictions will be necessary when other measures are not adequate to facilitate adjustment. Indeed this would be so whether or not new negotiations were undertaken. Trade patterns are changing at a much more rapid rate than in the past. We must find a way to match the pace of change with our capacity to adjust under terms fair to exporting and importing countries alike. The alternative is a further erosion of the multilateral trading system.

In recent years we and others have been making increasing use of negotiated export restraint agreements, usually worked out in bilateral discussions. This has been done at a rather considerable international political cost because the discussions, in a bilateral context, are usually conducted under the implicit threat of legislated import quotas. There is increasing interest in the possibility of establishing multilateral guidelines and procedures for these arrangements.

The Williams Commission examined this question and concluded that "orderly marketing agreements"--that is, export restraint agreements--would be appropriate under the following conditions: imports of particular products cause or threaten severe domestic adjustment problems in more than one importing country; serious injury or the threat thereof has been demonstrated under internationally agreed standards; and the solution to the problem requires multilateral action. The Commission recommended that the negotiation of such agreements normally be conducted under the auspices of GATT; that the agreements be limited in time--normally to no more than 5 years; that they provide for a reasonable annual rate of growth of imports; and that they be accompanied by measures of adjustment taken by affected industries in all restricting countries.

I have said very little to this point about agriculture. I have assumed that other speakers will be discussing agricultural issues and negotiating prospects in more detail. But I wish to assure you that this area will be given considerable attention in the coming months. Indeed, in view of the importance of agricultural trade to the U.S., tangible results in trade terms for these products are essential to the negotiations.

It is clear that we cannot deal here just with restrictions at the border. Internal price support levels and alternative ways of maintaining farm income will have to be addressed. The European Community's approach to those issues seems to focus on commodity agreements. We have indicated that such agreements do not seem useful. However, we may find common ground in some sort of interim arrangement providing for market access while progressively increasing the play of market forces. What seems most important is not the form of interim measures but the commitment to full liberalization of agricultural trade.

I have tried here to touch on some of the issues that will concern us in planning for the new generation of negotiations that lie ahead. There are many others, equally important, which I have not had time to mention. As our planning progresses we will be seeking views from you and others who share our interest in the success of these efforts. I know we can count on your support.