CONGRESSMAN'S REPORT
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Protectionism vs. Free Trade

The Great Tomato Rhubarb and Other War Stories

"The United States reached a turning point in its life as a nation when Congress overwhelmingly approved the Trade Expansion Act. By its action, Congress rejected economic isolationism and the status of a second-rate economic power for the U.S. It accepted the challenges of competing at home and abroad with the world's toughest competitors. It accepted the responsibilities of Western leadership."

Columnist Sylvia Porter in the
1963 World Book Year Book

This congressman and the Department of Agriculture are locked in a struggle right now -- a struggle which may be just an opening round in a broad new war between domestic producers and consumers. Historically this is a kind of war in which consumers finish last.

At issue at the moment is a new order, printed in the Federal Register January 4, which sets new and higher standards for tomatoes sold in interstate commerce. Behind it is an attempt by tomato growers in Florida to reduce competition from tomato growers on the West Coast of Mexico. Since the Mexican tomatoes are generally vine-ripened, whereas Florida tomatoes are shipped green, a careful writing of the new regulation has had the effect of keeping a substantial portion of the Mexican product off the U.S. market. The Department of Agriculture acknowledges its new marketing order, drafted by the Florida Tomato Committee, will cut Mexican tomato shipments by 20%. Growers and shippers say it will be somewhere between 30 and 50%.

Since U.S. imports through Nogales have made it one of the principal points of entry for this Mexican produce, this restriction can have dire effects on many of my constituents, on the economy of Santa Cruz County and -- perhaps most importantly -- on U.S. relations with Mexico, our important neighbor to the South.

What's more, this kind of import restriction -- and let's call it exactly what it is -- can result in the adoption of similar protectionist or retaliatory measures by other nations. In the case of Mexico this could mean the loss of many more U.S. jobs than would be gained for agricultural workers in Florida. The reason: we sell far more goods to Mexico than Mexico sells to us. In 1967 we sold Mexico $1.2 billion in goods while spending $749 million on Mexican imports; this has been the consistent pattern for years. Some Mexican officials are already talking about retaliating by buying farm machinery in Europe rather than the United States.

The angry reactions of my Nogales constituents and others to this new trade barrier recall the protests of 3� years ago when the United States reduced the amount of liquor which could be brought back, duty free, from other countries. Our neighbors in Nogales, Sonora, are still reeling from that blow engineered by bourbon distillers in Louisville, Kentucky, and other centers of domestic liquor production.

Tomatoes and liquor -- these are but two small items in a growing debate over foreign trade policy in this country. Already we have seen major efforts mounted in Congress to restrict imports of steel, textiles, meat, dairy products and numerous other commodities claiming a need for protection from foreign competition. Arizona is involved in many direct and indirect ways. Some examples which cross my desk:

** A Cochise County rancher, resenting the import of Australian beef which, he says, competes with American-grown beef and drives down the price, demands a lowering of beef import quotas.

** A pack bag manufacturer who does part of his manufacturing in Arizona and part in Mexico protests U.S. textile import quotas which limit the number of finished pack bags he can bring back into this country.

** A stockholder in U.S. Steel writes me to do something about the increasing imports of German and Japanese steel, which he believes will cut into sales of American steel products.

** An Arizona firm seeks help from this same congressman in nailing down a $750 million contract to supply iron ore pellets to the Japanese steel industry and, simultaneously, asks the U.S. government to prohibit an American group from investing money in Australia for development of iron ore to supply the same Japanese market.

** Arizona cotton growers, enraged by President Nasser's false charges against our country during the Middle East War, ask me to co-sponsor a bill denying cotton import quotas to nations having severed diplomatic relations with us -- namely Egypt and the Sudan. I co-sponsor such a bill. It passes but is vetoed.

** Arizona's industrial development leaders urge manufacturers to establish "twin plants" along the Mexican border, employing Arizona labor for a part of the production, cheaper Mexican labor for the remainder. They see this form of enterprise as a great boon to Arizona's industrial growth and as the answer to competition from countries having significantly lower labor costs, such as Taiwan and Japan.

** An Arizona newspaper tells the story of a plant in Flagstaff which was forced to shut down because it couldn't pay the federal minimum wage of $1.60 an hour. Out of work: 33 Navajo Indians. The explanation: competition from Taiwan and Mexico.

Who can say where the answer lies? Would Arizona be helped by import restrictions -- on *both* beef and tomatoes? Would we be better off with free trade, to encourage "twin plants", or limited trade, to help foster Indian employment in Flagstaff? Is it better to permit beef imports which make hamburger cheaper for Arizona housewives, or to restrict them for the benefit of Arizona cattlemen? These are complex questions which have no simple answers. But I think it's important to realize that, just as we see import restrictions from many points of view in Arizona, people in other states also have their special problems and their special, and often conflicting, points of view. Since this is one nation, and not 50, the job of the President and the Congress is to arrive at policies which are of greatest benefit to the nation as a whole. And as a congressman I see my job as striving for a delicate balance between contending interests in my district and between the interests of my district and of the nation as a whole.

For Arizona and the nation one must ask: where will all this lead? What are the implications of protectionism and of free trade for our economy, for domestic wage levels, employment and unemployment, the stability of the dollar and our role in world affairs?

ARGUMENTS FOR TRADE RESTRICTIONS

One of the most outspoken opponents of free trade in this country is O. R. Strackbein, chairman of the Nation-Wide Committee on Import-Export Policy. He sees the U.S. economy as terribly weak and shaky, unable to meet the challenge of competition from abroad. To those who might have imagined that competition was the great strength of our economic system his words may come as something of a shock. Here is what he wrote in a statement which just crossed my desk:

> *The competitive weakness of this country makes our economy stand like an island plateau against the pounding waves and tidal flows that beset it from all sides. The natural*

sequence will be a leveling process that will continue, unless it is halted, until we are level with the sea.

Those who view our position in this light argue that the lower wages paid in other countries inevitably will result in a drop in the production and sales of the same commodities and products turned out in this country. In the end, as they see it, our standard of living will be reduced or our industries will wither and die.

To these people the "reciprocal trade" concept introduced by President Roosevelt in the 1930s was a terrible mistake, and the Trade Expansion Act of 1962 was a disaster. The latter set the stage for negotiations, just completed last year, to reduce the tariffs we assess incoming products and pay to ship our products into other countries. Prompted by the severe competition of the European Common Market, that act -- which, as your congressman, I supported -- gave authority to the President to reduce existing tariffs by 50% in exchange for concessions from other nations, and to eliminate tariffs on those products where the United States and Common Market countries dominated world trade. As a result of the so-called Kennedy Round of negotiations many of those decisions are now history, and others are awaiting congressional action on what is known as the American Selling Price (basically, a "temporary," "infant-industry" protective tariff established for benzenoid chemicals after World War I and left untouched to this day).

Without doubt tariffs are the most effective device for stopping imports. But this tactic is no longer available for most commodities. Protectionists are now turning to *non-tariff* barriers, especially import quotas. The import quota says to Japan, for example: we won't tax the steel you ship in, but we'll limit your imports to so many million tons per year. The size regulation on Mexican tomatoes is another form of non-tariff barrier. The effect is the same -- to lessen competition and prop up domestic prices. Through pressure on Congress to enact such quotas industry groups hope to do indirectly what they can't do directly through tariffs. Presumably domestic *producers* benefit, but domestic *consumers* pay more for what they buy.

As the protectionists see the situation, any gain realized by consumers in the form of lower-priced goods can only be a short-term advantage because ultimately their own income and jobs will suffer. Scratch a consumer, they say, and you'll find someone whose income is derived from U.S. production. Anything that threatens U.S. production of any commodity or product threatens U.S. consumers, too.

Mr. Strackbein states this case very clearly. In answer to those who say we can meet the threat of foreign competition through cost-reduction and modernization of plant facilities he says:

> *Also, no one should deceive himself that significant cost reduction is a mild operation. In terms of employment it is harsh and drastic. We have a classic example in coal mining. In the mid-'fifties this industry was moribund because of encroaching competition from diesel oil, natural gas and imported residual fuel oil. The only hope of survival lay in cost reduction. The objective was indeed accomplished by the introduction of machinery that supplanted men in a gargantuan ratio. The coal industry saved itself but the cost in coal miners' jobs was two out of every three. Employment dropped at a dizzying rate, falling from 480,000 to 140,000 or less in fifteen years. The problem known as Appalachia was a direct result. The cost of relief and inhuman misery was 'unthinkable' and had it been appreciated ahead of time, would no doubt have been avoided as intolerable.*

In other words, he believes we should *not* have modernized the coal industry, not made it competitive with coal production in other countries, but rather subsidized the coal industry in order that it could continue to employ 340,000 men it no longer needed. The implications of this philosophy for an economy that prides itself on its efficiency and competitiveness are rather startling if you think about them.

Significantly, I think, this is *not* the position of most American industries, of the U.S. Chamber of Commerce or the American Farm Bureau Federation. However, it *is* the position of many segments of the economy *insofar as their own industries are concerned.* In other words, many of these groups favor the principle of free trade -- but not for *their* industry. They're happy to lower or eliminate trade barriers on everything else, but they see a desperate need to restrict the import of German bicycles or Swiss watches or English shoes. It's like being against all Federal spending except that in your own state. And it is from the special appeals of many such segments in our economy that the campaign for new trade restrictions has taken shape. The danger is that, acting out of concern for their own special problems, these industry groups, *combined,* might succeed in turning back the clock in our country's trade relations.

Turning back the clock could mean a return to the protectionist days of the Smoot-Hawley Tariff of 1930. That act, a reaction to the stock market crash of 1929, not only shut off imports but reduced our exports -- through reprisals -- to a mere trickle. Coming at the very start of the depression that rash act robbed us of hundreds of thousands of jobs just when the economy was least able to handle such a loss.

ARGUMENTS AGAINST RESTRICTIONS

Ever since the mercantile days of Adam Smith and his *Wealth of Nations* in 1776 there has been one matter on which nearly all economists have agreed: that nations benefit from free trade and are harmed by high tariffs. Yet protectionism remained for nearly 200 years as the prevailing rule in world trade. Only in the years since World War II have we seen any significant departure from this pattern. The big break-through, of course, was the tariff-lowering arrangement known as the European Economic Community, or Common Market. The huge advantages accorded members of the Common Market in trade among themselves made it a virtual necessity that the United States take steps to improve its competitive position; the Trade Expansion Act of 1962 was the result.

Old ideas don't die quickly, however, and we're now seeing a reaction set in. The old protectionist arguments are being paraded anew, and I think it's important that we weigh the counter arguments:

> -- Trade that is essentially free increases each trading nation's standard of living. This is so because goods tend to be produced by the most efficient producers in each country. For any given level of manpower a greater supply of goods and services can be made available for the enjoyment of the people than would be the case if inefficient producers were kept in business through trade barriers.
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> -- Protectionist fears arise from a totally impossible eventuality -- a situation in which a nation would import vastly more goods than it sold abroad. But, basically, goods are paid for with other goods; goods are the currency of international commerce. Increased imports ultimately require increased exports, and vice versa. Commerce is impossible without something close to a balance between the two. Thus, the number of jobs lost through imports will always be balanced in the main by the jobs gained through exports.
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> -- Unrestricted trade increases the real income of workers in trading nations. First, through the pressures of competition it forces each nation to strive for its greatest efficiency, to produce those goods which it can turn out at the greatest economic advantage to itself; thus, there is a need to get the greatest production out of each worker, and through this heightened efficiency there are the means to increase wages. Secondly, the availability of less-expensive goods (take, for example, the superb Japanese cameras you can buy today at really modest prices) makes the income of workers go farther than ever before.
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> -- The ready availability of imports serves as a check against inflation. When demand outstrips supply, the normal result is an increase in prices, often detrimental to producer and consumer alike. The importation of goods from abroad (provided they're not blocked by tariffs or quotas) can avoid such inflationary situations. And, of course, the steady competition from foreign goods will force our economy to reduce costs and hold down prices, thereby relieving the pressures of inflation.

From the foregoing you may sense that I am a "free trader." I tend to be, as does President Nixon. However, I believe every situation relating to our trade with foreign countries deserves careful analysis: I'm willing to acknowledge that an occasional justification can be made for temporary restrictions on the import of certain goods. The maintenance of industries capable of meeting our needs in time of war (when foreign sources may be cut off), the encouragement of new industries having the potential for real competitiveness at a later date -- situations of this kind make sweeping generalities hazardous and broad principles subject to occasional exceptions. And that's why Congress will spend so much time this year talking about the problems of so many segments of our economy -- about dairy products, textiles, steel and all the rest.

HOW STRONG IS OUR ECONOMY?

Behind the drive for new trade restrictions is the fear that our economy can't stand the test of international competition, as Mr. Strackbein so dramatically stated. Let's take a look at this economy which is so weak and fragile:

-- Between 1959 and 1967 steel imports rose by 7 million tons. But in the same period U.S. steel production rose by 34 million tons and employment in the steel industry increased by 24,000 jobs.

-- In 1960 the per capita, after-tax, spendable income of the U.S. population was $1,883 (expressed in terms of 1958 dollars). On the same basis per capita, after-tax income is now $2,473 -- a gain of close to $600 in just eight years.

-- In 1960 we had total civilian employment of 66 million. Today we have 76 million jobs -- a gain of 10 million jobs in eight years.

-- In 1960 we had 3.8 million unemployed. Today, after adding 20 million people to our population, we have only 2.8 million unemployed. Our unemployment rate of 3.6% is among the lowest in the world. Some even argue that it's too low.

-- In 1960 our total national product in durable goods was worth $81 billion, expressed in 1958 dollars. In 1968 our durable goods production had risen to $124 billion -- a gain of 53% in eight years.

-- In 1960 our total product of non-durable goods was $60 billion. Last year it stood at $82 billion -- a gain of 37% in eight years.

-- Our Gross National Product in 1960 was $503 billion, compared to $861 billion in 1968. Expressed in 1958 dollars, the 1960 total was $487 billion, the 1968 total $707 billion -- a gain of $220 billion. That gain, discounting the effect of inflation, is equivalent to the total 1960 national product of the entire Common Market --

Belgium, France, Germany, Italy, Luxembourg and the Netherlands -- plus Austria, Denmark, Norway, Portugal, Sweden and Switzerland. That's not our total product -- that's just what we added in eight years.

I should think that anyone, reading these figures, would see in them signs of a very healthy, strong and competitive economy. These are not products of protectionism; they're the result of increasingly free trade, marked by declining trade barriers through this eight-year period. To see this economy as one about to be leveled by international competition is, in my judgment, like seeing the New York Jets last month as a team on the verge of collapse.

BUT WHAT HAPPENED TO OUR TRADE SURPLUS?

Some of the fuel for this year's trade debate will come from recent statistics showing a sharp drop in our traditional foreign trade surplus last year. Here are some quick figures:

	EXPORTS	IMPORTS	SURPLUS
1959	$16.4 billion	$15.6 billion	$ .8 billion
1960	$19.6 billion	$15 billion	$4.6 billion
1967	$30.9 billion	$26.8 billion	$4.1 billion
1968	$33.8 billion	$33.1 billion	$ .7 billion

The 1968 surplus was actually $726 million, a drop from the expected $1 billion surplus. Protectionists undoubtedly will see this as the beginning of the end unless the dike is plugged fast.

Just as one game doesn't make a season, one year doesn't make a trend. The Commerce Department attributes the 1968 decline to strikes and strike-threat situations in steel, copper, and aluminum, and to a boom in the domestic economy making possible the purchase by consumers of more foreign luxury goods, especially automobiles, and including "American" cars made in Canada. Imports represented 3.8% of our Gross National Product, compared to 3% in recent years -- still a very modest figure.

It is also helpful to note that our trade surplus in 1959 was just $789 million, yet a year later it had bounced back to $4.6 billion. In any case, most economists consider it important only that there be a reasonable balance between exports and imports; there is no great advantage to big surpluses. In fact, any surplus means some other country or countries will have a deficit -- and thus a net loss of jobs. It's unreasonable, in their view, to insist that the United States *always* have a surplus and its trading partners, taken as a block, *always* have a deficit.

OTHER TROUBLESOME QUESTIONS

Even though every U.S. President since Franklin D. Roosevelt has favored tariff reduction, and even though that has been the policy of this country since passage of the Reciprocal Trade Agreement Act of 1934, protectionists still argue that free trade will reduce our wages, working conditions, living standards and profits to the levels of our poorest trading partners. Countering these arguments is not easy because international trade is such a poorly-understood subject. These are some of the questions raised:

* 1. It's immoral to buy goods from nations with substandard wages. We ought to use trade as a weapon to force other countries to raise wage levels.

* 2. Cheap foreign labor will produce unemployment in this country. Charity begins at home.

* 3. High wages in this country, held up in part by the minimum wage laws, make it impossible for us to compete with cheap-labor countries.

Trade advocates see little merit in these arguments. They answer:

* 1. Since the world's resources aren't distributed evenly, trade is an absolute necessity, not only within the borders of individual countries, but between countries. How else could non-agricultural countries survive? How would a one-crop economy, producing only coffee, or rubber, feed its people? History shows that the more nations engage in trade, the higher are their standards of living. Without trade they couldn't possibly advance. Higher wages cannot come from production for which a country is not suited.

* 2. As long as exports and imports are essentially in balance, as many jobs are gained as lost. If exports are in surplus, as they traditionally have been for the United States, there will be a net gain in employment.

* 3. How could there be exports at all if lower wages always gave the foreigner an advantage? The truth is that lower cost, not lower wages, determines competitiveness; efficiency, availability of resources and other factors are often far more important than wages in determining prices.

F. W. Taussig, a Harvard economist, answered these arguments some years ago when he wrote:

> *"In the United States by far the most common and most effective argument in favor or protection is that it makes wages high or enables wages to be high. With many persons it is an accepted article of faith that American wages can be kept high, and the American standard of living can be maintained, only if there is protection against the goods made by the cheaper labor of other countries... This fear of universal leveling rests on ignorance or misunderstanding of the causes that lead to the differences between countries in money wages, in prices, in general prosperity... None put forward in favor of protection are more specious and widely held, none are more fallacious."*

THINGS TO WATCH FOR

As the new Nixon Administration gets to work on the many problems facing this country you may want to watch for indications of the President's position on some of these foreign trade issues. Here are the major ones:

** Tariff-cutting authority under the Trade Expansion Act of 1962 expired June 30, 1968. President Nixon may ask for an extension of that authority permitting him to take new initiatives in reducing tariffs.

** Congress last year failed to act on President Johnson's proposal to eliminate the so-called American Selling Price system, a post-World War I tariff which gives special "infant industry" protection to our giant chemical industry. The Johnson Administration agreed to seek repeal of the ASP in exchange for tariff concessions by other countries. President Nixon may or may not abide by that commitment; if he does, he may face difficulties from congressmen and senators having large chemical plants in their states.

** During the campaign President Nixon said he had sympathy with some of the temporary measures proposed to prevent excessive imports of such products as textiles and steel. However, he said last week he opposes import quotas. It will be interesting to see how he responds to mounting pressures from industries seeking such relief

YOUR THOUGHTS ARE WELCOME

In this report I have tried to present as complete a picture as possible of the foreign trade debate that is shaping up in Congress this year. I have tried to depict for you the kind of situation I face as your congressman -- a situation in which I must represent both producers and consumers, both those who seek import restrictions and those who stand to benefit from the free flow of foreign imports of various kinds. I intend to keep trying to do the best job I can of representing all of you.

As I indicated at the outset, producers tend to carry more weight in these debates than consumers. I expect that will continue to be true, not because it's right but because producers of steel, textiles, chemicals - and Florida tomatoes - are better organized and can bring greater pressure to bear on the decisions of government. As a consumer and/or producer you can sit back and watch as the show begins, or you can become part of it. I'll welcome your views.

Morris Udall