The original documents are located in Box 25, folder "Trade Legislation (2)" of the Loen and Leppert Files at the Gerald R. Ford Presidential Library.

Dick/Tom
File

TESTIMONY

OF

MR. PETER M. FLANIGAN

BEFORE THE SUBCOMMITTEE

ON

INTERNATIONAL TRADE

OF THE

SENATE COMMITTEE ON FINANCE

February 26, 1973

Mr. Chairman:

It is a privilege for me to be with you this morning to exchange views on the topic of multinational corporations. My knowledge on this subject has grown appreciably since my last appearance before a Senate Committee where, unlike today, the question was whether I knew too much about one particular multinational company. I will try to give you an Administration viewpoint regarding the multinational corporation and its part in the broader international economic picture. Secretary Dent will be with you later in the week to provide more specifics, and particularly the results of some recent studies of the multinational corporation by his Department.

Introduction

Too often in the past we and other countries have tended to view trade, monetary and investment problems as separate and isolated issues, each requiring its own solution. However, our experience over the last few years has clearly shown that, in today's economically interdependent world, no action in any one area of international economic activity is without consequence for the others.

The world's current arrangements for handling economic activities among nations lack coherence and have given rise to a great variety of inequities and incompatible policies. It is our conviction that commercial nations can no longer afford to alter just one part of the overall system without considering its effect on other parts. Our strategy must be -- and is -- to seek a thoroughgoing reform of the system as a whole to ensure that future arrangements are mutually reinforcing for the operation of an open and equitable international economy.

In the international economic system today we find a long list of distorting practices, in the forms of tariffs, non-tariff barriers, anachronistic monetary arrangements as well as measures designed to promote or inhibit investment flows and the activities of investors abroad. All of these practices in turn have inevitable consequences for the functioning of the monetary system, the means by which countries adjust to changes in their relative international economic position and in the patterns of international trade, investment and payments. These distortions will be the subject of the monetary and trade negotiations which we are undertaking this year.

In these negotiations, our purpose is clear. As recently stated by the President, it is to get a "fair shake" for American workers and American companies. We are asking our negotiating partners to work with us to reduce existing distortions and to remove inequitable rules and practices in the interest of an open and equitable international economy. We seek a world in which nations trade, invest and deal financially with each other according to rules and procedures which are fair and applied equally to all.

In the field of international investment, we believe that many of the difficulties attributed to the existence of multinational corporations, particularly those alledged by the host countries, should perhaps be dealt with by international rules and, possibly, new mechanisms for multilateral enforcement. However, development of this approach would take time, and I would urge the Congress to refrain from enacting broad new changes in our own laws governing direct foreign investment until we can begin to reach agreement on the nature of the problems and the appropriate multilateral solutions.

The net result we seek from our international economic policy is more jobs at higher real income for all Americans. In this context, a subject of deep concern is the loss of jobs for American workers as a result of unfair practices by foreign competition.

In seeking to remedy glaring examples of unfair international competition, such as dumping or subsidized exports, we must be sure that we carefully analyze the real causes. We must not fall prey to the expedient of adopting an alleged cure which is in fact completely unrelated to the true problem.

The MNC's -- A Statement of the Problem

Because of its large economy the United States creates substantial amounts of savings and, consequently, resources for investment. Although we do not have precise data, the U.S. share of world savings is probably somewhere between that of its 30% share of world GNP and its 13% share of world trade. In short, the U.S. economy is a major source of investment in the aggregate world economy. However, we should recognize that the bulk of this investment stays at home. The capital outflow from all U.S. direct foreign investment is only about 6% of U.S. private domestic business investment.

To the extent that a portion of this investment flows abroad, it is widely agreed that it stimulates employment, wages, and therefore welfare in the recipient country, while at the same time maximizing the return on investment to the investor at home.

Further, it can be said that the job of business is to combine capital, labor, materials, technology and management in the most productive way, and the consumer is the beneficiary of its success in doing so -- through product availability and choice, and through lower costs and thus prices.

This point of view contends that the very international mobility of capital, technology and management and the continually reducing cost of transporting materials allows more and more beneficial combinations of the elements of production, and that the multinational corporation is a main instrument for achieving these benefits.

As an analogue, consider what the economic well being of this country would be today if at some time in history we had limited the operations of each business to one state. Only capital accumulated within a state could be used to develop its industry; technology used in the industry of a state had to have originated there; management had to be drawn from state "citizens"; economies of interstate scale had to be foregone. Clearly, we would all be living at a considerable lower level than we do now and certainly we would not be able to carry the tremendous social expenditures we now do.

Despite these benefits attributed to direct foreign investment, the flow of capital abroad also has its critics. The direct foreign investor returns earnings to his home country; but host countries prefer foreign customers to foreign owners of their productive assets, particularly after the initial risk has been successfully surmounted by the investing firm. In addition, the owners of assets abroad are not always popular in their own country when their investments are alleged to cost domestic jobs.

Since what we have come to call multinational corporations (MNC's) are among the world's largest and best known firms, they have become the obvious targets for critics of direct foreign investment. MNC's and the direct investment activities they pursue have been viewed by some as agents for infringement upon the national sovereignty of host countries and as the means to export jobs and productive capital from the investing countries. MNC managements have at times been described as mobilizers of market and investment information, who spot profit opportunities and then quickly move management and capital into them, without sufficient regard to human sensitivities, economic conditions in the home or host countries, and the rights and interests of the other society.

Thus, the economic theory that lies behind the benefits ascribed to direct foreign investment is challenged as being unrealized in practice. I believe that such evidence as is available must be used to weigh the different assessments we hear of MNC's and to be sure that our policy is developed in an even-handed way. Where the evidence suggests some net harm from the investment activities of MNC's, those activities must be promptly addressed. Where net gain is found, MNC activities should be encouraged. The art of sensible policy development will be to maintain the benefits of international investment while alleviating harmful side effects.

Background Analysis

Although this business form has been around for decades, the multinational corporation has become an increasingly visible form of business entity in recent years.

Part of this visibility can be explained by the sheer size of many of these companies. About four-fifths of the approximate $93 billion book value of U.S. foreign direct investment is accounted for by a few hundred U.S. -based multinational firms. I might note that a 1966 OECD study shows that the U.S. accounts for only 60% of the world's total foreign investment, with the remaining 40% largely from Western Europe. In fact, I would expect that, relative to its size, MNC's are at least as important a part of the economic life of Switzerland as they are in the U.S.

Another reason for the attention these companies have attracted arises from their dynamic character. Because the MNC has introduced so many changes in the places it operates -- in the use of capital, the introduction of new management techniques, and in the application of new technology -- it has received the blame for many problems which have coincidentally appeared.

In the latter half of the 1960's, concern over the consequences of the multinational corporation grew concurrently with U.S. domestic economic problems. During that period the forces which had been eroding the traditional ability of the U.S. to compete internationally accelerated to such an extent that our trade surplus shrank precipitously and then disappeared. New import challenges arose from national economies which had finally overcome the destructive effects of the Second World War. American consumers responded enthusiastically to these new sources of high quality products at competitive prices. Although exports grew an average of about 8% a year during the decade from 1961 to 1971, imports rose by about 12% a year during the same period.

The rise in foreign competition was not the only event that aggravated our international economic difficulties. The growing costs of the Vietnam war were imposed on an economy already at full employment, so that the country found it could not have both "guns and butter" without unacceptable increases in the general price level. Excess demand in the overheated economy induced a dramatic surge of imports. At the same time, inflation due to that demand contributed to the overvaluation of the dollar, a condition that -- as part of a vicious economic circle -- made imports to the U.S. cheap and exports from the U.S. expensive -- thus accelerating the rapid import growth.

Upon taking office, President Nixon established as his top priorities ending the war and restabilizing the domestic economy. The economic adjustments required by each of these efforts were substantial and during their most difficult period required coping with rising unemployment as well as lingering inflation. During that period some Americans were attracted toward a new isolationism. That period produced various protectionist proposals as expressions of frustration at the inflation-produced international imbalance rendering our products uncompetitive; of unhappiness with trading partners whose economic rejuvenation we had paid for only to find our goods excluded from their markets by artificial barriers; and of fear that we might not be able to compete abroad again, even if all the barriers were dropped, because of our high wage rates. Thus studies such as one by Stanley Ruttenberg, a noted labor economist, argued for import restraints, restrictions on outflows of capital and technology and tax penalties for the MNC's.

Fortunately, the Congress did not respond in haste to these restrictionist pressures. Instead, it gave the President's programs a chance to work. The results have been considerable: the war has been ended and in its place we have the beginnings of a rapproachment with the major nations of the Communist world. A shaky monetary system with its overreliance upon, and overvaluation of, the dollar has been shored up. The relationships between world currencies have been made more realistic and a plan for complete overhaul of the system has been presented by the United States.

I have already mentioned the President's program to reform international trade through multilateral negotiations. These negotiations, scheduled at our request to begin in the Fall of this year, have been endorsed by the Common Market, Canada and Japan as well as other countries. Therefore, in this new atmosphere of progress and confidence about our future in the world economy, we can take a careful and dispassionate look at the activities of our corporations in other countries and their effects on our own country. In doing so, it is difficult to find much evidence that the MNC's, as a group, have damaged the U.S. economy or its workers. In fact the hard evidence gathered to date would indicate the reverse.

Employment Effects

A principal concern relating to the MNC's is their purported effect on domestic employment. The results of a recent Department of Commerce study of 298 U.S.-based MNC's for the period 1966-1970 suggest that multinationals have helped, rather than hindered, the growth of domestic employment. The study showed, for example, that while overall U.S. private sector employment grew 1.8% a year during this period, domestic employment attributed to MNC's grew by 2.7% a year. The new Tariff Commission study, called for by this Committee, makes some comparative estimates of domestic employment impact of the multinationals on various sets of assumptions. On a realistic set of assumptions about the share of the world market which U.S. exporters would capture if there were no foreign subsidiaries of U.S. companies, the Tariff Commission found that MNC's create a net gain in U.S. employment of about one-half million jobs. The study indicates that only on unrealistic assumptions can one conclude that MNC operations cause a reduction in total U.S. employment.

In considering the impact of multinationals on employment in the United States, it is important to note the following facts that are sometimes ignored:

First, regarding exports and jobs created by exports, MNC's do not reduce exports, but rather increase both exports and jobs. As evidence of this point, one or two statistics are interesting. The 1966 Commerce Study indicated that 25% of total U.S. exports were associated with U.S.-MNC investment. The more recent 1970 Commerce survey of 298 U.S.-MNC's values their exports at $21 billion or about 50% of the U.S. total.

Second, regarding imports, U.S. import competition mostly comes not from U.S. multinational corporations but from foreign-owned companies. This is especially true in the cases of textiles, steel and automobiles. Indeed, the top three U.S. importers by value are Volkswagon, Datsun, and Toyota. I think you'll agree we can't call them American MNC's. Indeed the 1970 Commerce Department survey indicates that about 70% of the output of foreign subsidiaries of U.S. companies is sold in the country where it is produced and an additional 23% is exported to third countries. Only 7% of the MNC production returns as imports to the U.S. to compete at home with domestic production. If you take out the effect of the Auto Agreement with Canada, only about 5% of the foreign output of MNC's is imported into the U.S.

Third, in most of the few cases where U.S. and third countries are supplied by American affiliates abroad, such as the consumer electronic industry, elimination of these plants would not result in increased U.S. output and employment, but in replacement of our output by foreign competitors. Such replacement would probably reduce U.S. employment further since foreign competitors would be less likely to rely on the U.S. for machinery, supplies, research or marketing requirements or to maintain U.S. facilities for assembly or the base for possible domestic future production should technology change or foreign wage rates increase.

In those limited cases where low-wage imports do displace American workers we should not attempt to solve this problem by means of wide-ranging import restraints. Such a program would greatly reduce the potential of LDC's for development, a potential which is important to world political stability and would force all of our consumers, who are also workers, to pay artificially high prices for the products whose importation has been stopped. Instead, we need, first and foremost, policies and programs which will keep the economy healthy enough to provide jobs for American workers. In addition, we need the authority to prevent a flood of imports from inundating any single industry in a short time. To protect against this, the President, in the Trade Bill, will request the authority for safeguards to avoid short-term market disruption while economic adjustment to imports takes place.

Fourth, notwithstanding much rhetoric to the contrary, the evidence indicates that businesses do not normally move abroad to take advantage of low-cost labor. Sixty percent of U.S. direct investments abroad in 1970 were in Canada and West Europe.

With a few exceptions, U.S. labor has proven itself to be fully worth what it is paid. The very fact that so few industries have been forced to move abroad to meet the competition of cheap foreign labor indicates that the productivity of American workers substantially overcomes the effect of labor rate differentials.

There is one problem however, in the area of employment which deserves our special attention. There are some plants which have moved or been established outside the U.S. to take advantage of low cost labor for the manufacturing of products which are intended to be exported to the U.S. We understand that in many cases these actions are forced by competitive circumstances. But we are also aware that in some cases these actions are induced rather than forced --

that plants are being lured into nearby countries with tax and other concessions. We have already taken action on a similar problem in the recent Michelin Tire case in Canada. There Canada had induced, through government subsidy, the Michelin Tire Company to build a plant in an economically depressed area. This plant was designed to export most of its output to the United States. While we don't begrudge our Canadian friends the right to relocate jobs from Toronto in order to encourage economic development in less developed areas of Canada, we do believe it is a matter of proper concern for us if the result is to move jobs out of Akron. In the Michelin case, a countervailing duty has been levied on imports from that plant.

I can assure this committee we intend to use the tools we have to deal with this type of situation.

Balance of Payments Effects

Another area of controversy surrounding the MNC's concerns their role in the rapid erosion of the U.S. balance of payments. Critics note the coincidence of the rise of the MNC and the deterioration of the U.S. balance of payments. However, the evidence appears conclusive that the MNC's exert a highly positive influence on our trade and payments balance.

For example, the recent Commerce Department Survey shows that in 1970 the MNC's produced a trade surplus of $7.6 billion as against a non-MNC deficit of $5.7 billion. This showing represented an improvement in the MNC trade surplus by $2.3 billion over 1966 figures, as against a deterioration of $4.0 billion for the non-MNC's over the same period.

It is often charged that export of capital is a major contribution to the balance of payments difficulties of our country. The facts indicate that net private capital flows in 1972 will contribute less than $2 billion to our 1972 deficit. Regarding MNC's specifically, their annual investment income is far greater than their annual capital exports: in 1971, the profits remitted to U.S. parent corporations as well as large patent and trademark royalties totaled about $10 billion, twice their capital outflow in that year.

Technology Transfer

MNC's are also accused of transferring U.S. technology to foreign countries. The U.S. has -- with justification -- prided itself for Yankee know-how and ingenuity. Our economy remains the most productive and efficient in the world. The U.S. earns its higher wage rates by more capital per worker and greater output per manhour than any other country, and its achievements in high technology products, such as computers and aircraft, need no recounting to this Committee.

Despite our past accomplishments and current strength in science and its application to new products and production, it is now argued that the U.S. is giving away or transferring its technological leadership to foreign countries through the MNC's. Critics hold that too much know-how moves abroad because of MNC production. They argue that the licensing of U.S. products and processes to foreign firms costs U.S. jobs and, because of increased imports back to the U.S., is harmful to our trade account.

I would suspect that technology moves through so many channels that it is simply impossible to obtain comprehensive data on the methods, magnitude or consequences of technology transfer.

Much knowledge moves through personal contact among scientists and engineers, through technical meetings, publications, and other informal channels. Thus licensing is only one way of transferring know-how, and it is probably far less important than transfers of American management ability which would continue to occur even if these managers were forced to use foreign research and development.

Pure and applied science cannot be readily constrained and any system of "official reviews" would prove not only an administrative nightmare, but would also be ineffective as anything more than a temporary obstruction to a transfer. Such a system would also substantially reduce U.S. royalty income without any compensating benefit.

It is important to note that if U.S. patents are not filed abroad or are not exercised in foreign production, many nations allow royalty-free exercise of the rights. Thus, statutory restraint on use of U.S. know-how in foreign production would lead foreign competition to take those markets which should have been captured by U.S. firms. Clearly we cannot permit this harmful result.

Perhaps the most important fact to note on this subject is the two-way flow of technology. Radar, penicillin, the Wankel engine, to name a few, illustrate gains for the U.S. from the importation and use of foreign technology. To ask that technology transfer be restricted in the hope of securing some special advantage to the U.S. economy would invite similar self-defeating restrictions on technology exports to the U.S.

Problems of the Host Countries

This Committee needs no reminding that whatever questions have been raised domestically about the social and economic consequences of MNC's, governments abroad have also become far more concerned about these companies. Beyond the major seizures of U.S. property, such as the Anaconda and Kennecott expropriations in Chile, recent months have seen a spread of lesser controls over foreign investment, including the screening procedures currently under consideration by several governments of Europe and Asia and already adopted by others, including Canada.

Host governments in general grasp the benefits that accompany the transfer of new capital, improved technology, and managerial skills. Nevertheless, the message is clear: MNC's are now less popular or unpopular not only among less developed countries, but among some of our most prosperous trading partners.

Among the causes of host country antipathy is a fear on the part of many governments,

that some activities of MNC's are inconsistent with their national goals. In some cases, these countries look upon large MNC's as a challenge to their sovereignty. One example would be a decision by an MNC to close a facility and transfer production for economic reasons, without what the host government considers adequate concern for the social consequences. The fact that many of the largest of these firms are U.S. owned and operated does not diminish the fear of so-called "economic imperialism". Occasional extraterritorial application of U.S. antitrust or export control laws has increased this apprehension. The catalogue of concerns also includes the fear that foreign control of key industries may hinder military and diplomatic policy. Some even charge that external control may perpetuate the so-called "technological gap" by freezing some nations into production and even educational patterns determined elsewhere. It is ironic that these charges are levied at the same time that domestic critics of MNC's allege that the U.S. is giving away our latest technology for an inadequate return, and when the U.S. is educating in our institutions of higher learning the largest number of foreign engineers, scientists, doctors, and technicians in our history.

We of course believe the proper role for the MNC's is to be good citizens in the countries in which they operate. This implies the duty to conduct operations within the constraints of good citizenship, plus the responsibility to accept all the obligations of citizenship. If they are, I believe that no country will voluntarily choose to rely solely on its own investment resources for long. Even countries which are ideologically antagonistic to private investment will welcome foreign investment on reasonable terms after having been given sufficient time and experience to evaluate the alternative for themselves and establish their own trade-off of autonomy versus prosperity. Recent experience with increasing receptiveness to private investment in Eastern European countries, evidenced by their interest in exploring new investment possibilities with Western entrepreneurs, confirms this analysis.

Certainly the United States plans no barrier to the expansion of the $13.7 billion of foreign direct investment in this country. We welcome it; we hope it will increase. I am sure we all favor the jobs created by Shell, Lever Brothers, and Nestle, all of which are MNC's based abroad.

My testimony would not be complete without a brief discussion of some of the alternative international economic proposals to be considered by this committee. Some of the proposals would seek to roll back imports through quotas, bar the outflow of U.S. technology and capital, and heavily increase the taxes of U.S. multinational corporations. As I have stated earlier, the Administration is very sympathetic to a number of the concerns provoking these proposals.

However, our experience indicates that balance of payments problems cannot be cured by reducing imports. Such attempts only invite retaliation against our exports, limit consumer choice, and increase prices for every American.

Instead of import quotas we need policies which will increase exports.

In its forthcoming trade proposals the Administration will propose safeguards against the disruption of particular markets and production due rapid changes in foreign trade. These safeguards will provide the opportunity to adjust over time to specific problems in specific industries, and will not entail gross costs to the entire economy nor invite retaliation.

The Treasury Department is in the process of studying the effects of our taxation of income earned abroad but no Administration position on this matter has been reached. Therefore I am not in a position to discuss today questions relating to taxes on foreign income.

At home we remain committed to reducing inflation. For the international economy this means increased competitiveness for our exports. We remain committed to fiscal responsibility in our efforts to hold down costs and prices and to raise productivity in the private sector. Combined with a more effective means of establishing currency parities and payments equilibrium, we seek an international economy more responsive to market forces, providing a better living standard for all Americans, and indeed for all the peoples of the world.

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March 13, 1973
Lowell Weicker

Generally acceptable bill.

Violently critical of Administration's record in the international economic field, and of the personnel handling this area.

Dick Cook -
FYI
- BT

THE WHITE HOUSE

WASHINGTON

February 26, 1973

MEMORANDUM FOR: BILL TIMMONS

FROM: PETER FLANIGAN

SUBJECT: Congressional Consultations on the Trade Bill

Attached are notes which I have taken on my consultations to date. I think that you may find them interesting. I will supplement these from time to time.

Attachment

file: Trade

Bill Timmons

TENTATIVE SCHEDULE
OF
CONTACTS ON TRADE LEGISLATION

CONGRESS

Feb. 26, 1973

SENATE	Contacts	Date	Comments
Leadership			
Mansfield, Byrd	PMF	Feb. 23, 10:30 a.m.	
Scott, Griffin, Bennett, Tower, Cotton	PMF	Feb. 15, 3:3- p.m.	Republican leadership advised consulting with Mansfield.
Finance:			
Long	PMF	Feb. 22, 8:45 a.m.	
Talmadge	PMF	March 2, 9:00 a.m.	
Ribicoff	PMF	Feb. 21, 2:30 p.m.	
H. Byrd, Jr.	PMF (we)	Feb. 23, 11:30 a.m.	
Mondale	Pearce?		
Bentsen	PMF (we)	Feb. 26, 4:00 p.m.	
Curtis, Fannin, Hansen, Packwood, Roth, Dole	~~Bent~~ PMF (we)	Feb 27, 2:30 p.m (+)	
Hartke, Nelson, Gravel	Eberle		
Banking Housing Urban A.			
Sparkman	PMF (we)	Feb. 22, 9:30 a.m.	

CONGRESS

SENATE cont.	Contacts	Date	Comments
Foreign Relations			
Fulbright	Rogers		Maybe the whole committee, but after Long and bill is in good shape.
Aiken	Rogers		
Javits	PMF		
Commerce:			
Magnuson	PMF & Dent	Feb. 28, 5:00 pm	

TENTATIVE SCHEDULE
OF
CONTACTS ON TRADE LEGISLATION

CONGRESS

HOUSE	Contacts	Date	Comments
Leadership			
Albert O'Neill McFall?	PMF	Feb. 27, 11:00 a.m.	
Ford Arends Schneebeli ✓	PMF	Feb. 22, 4:00 p.m.	
Ways & Means			
Mills ✓	PMF	Feb. 24 in Arkansas	
Ullman	PMF		
Waggonner	PMF (we)		
Conable ✓	PMF	Feb. 20, 9:00 a.m.	
Collier Broyhill	PMF (we)		
Schneebeli and Republican Members	PMF	Feb. 27, 9:00 a.m.	
Banking and Currency:			
Reuss ✓	PMF (we)	Feb. 23, 4:30 p.m.	
Ashley ✓	PMF	Feb. 22, 5:00 p.m.	
Johnson Stanton Blackburn Widnall ✓	PMF	Feb. 22, 3:00 p.m.	

OF
CONTACTS ON TRADE LEGISLATION

CONGRESS

HOUSE cont.	Contacts	Date	Comments
Foreign Affairs			
Morgan	Rogers		
Mailliard	Rogers		
Commerce:			
Staggers	PMF & Dent		
Pirnie	PMF & Dent		

TENTATIVE SCHEDULE
OF
CONTACTS ON TRADE LEGISLATION

BUSINESS

	Contacts	Date	Comments
Sandy Trowbridge Conf. Board Arch Booth CAC Doug Kenna NAM	PMF & Dent Eberle	Feb. 20, 4pm	
Howard Clark Business Council	PMF	Feb. 14, 5pm	
Don Kendall Bob McNeill ECAT	PMF	Feb. 14, 3pm	
Bill Kuhluss American Farm Roger Flemming American Farm	PMF & Butz	Feb. 22, 11 am - 1 pm	

February 23, 1973
Henry Reuss

Re Adjustment Assistance -- Dropping adjustment assistance may well get us political trouble. In addition, Reuss says that to get a Trade Bill through we must have full employment. To get this, we should enact the Reuss Full Employment proposal for public service employment. Nevertheless, Reuss will help us get the Bill through.

Re MFN -- Reuss had 3 hours with Kosygin a month ago. They told him that politics in the U. S., the Amendment would go on. However, Reuss feels some real motion would change Congressional opinion -- but couldn't define "real motion", but this need not be repeal of the Russian law.

February 15, 1973
Hugh Scott
Wallace Bennett
Norris Cotton
John Tower
Robert Griffin

1. Trade aspects generally good

2. Adjustment Assistance --
   U.I. & Pension - maybe good

3. BOP - Make it clear it is part of BOP

4. Anti-inflation -- OK

5. Generalized Tariff Preference -- OK

6. MFN - Scott) Cotton) Tower) Griffin) Bennett)

   If you want the Trade Bill, better leave it off. If you want MFN more than trade, it may have a better chance if connected to Trade.
   Cotton suggests sending the MFN up just before Trade, giving the Senate flexibility.

February 20, 1973
Barber Conable

Re Committee --

Talk individually with Collier and Broyhill (as I will have with Schneebli and Conable). Then ask Schneebli if he would like me to make a presentation to the entire Committee. Would neither hurt not help to have Eberle join in the presentation.

Re Bill --

Much prefers tariffs to quotas, which are the wrong means of protection.

Doesn't "give much of damn about Adjustment Assistance". Thinks it's a waste of time and a big program "won't get you two votes from Congress."

Re BOP and anti-inflation authority, "no strain".

Re Generalized Pref. - OK

Re MFN for Communist countries, not "particularly tough for me." But "you're in real trouble on that" Vanik -- the representative of AFL-CIO on Ways and Means -- is using this issue to scuttle the Trade Bill. There is little flexibility with the Jews trapped in their rhetoric - because the Russians can't change their laws. This issue could result in serious embarrassment for the Trade Bill.

Mills said to Conable "I'm not really in favor of MFN for Russians."

February 21, 1973
Abraham Ribicoff

Re the Trade Bill, Ribicoff does not disagree with our thinking, except to wonder if tariff authority will be given to the President by this Congress. This would be helped by a Congressional Committee to advise on Trade Negotiations, on which there would be two Republicans and two Democrats from Finance and Ways & Means Committees plus one staff member. These people would go to Geneva. There need not be members of other Congressional Committees but there should be representatives of Industry, Labor, and Agriculture. This should be proposed along with the Bill.

Re MFN (remember Ribicoff is a prime mover of the Jackson amendment). Whether MFN goes up alone or as part of the Trade Bill, the Jackson Amendment will be passed in any event. So if the President wants to veto MFN with the Amendment, it should go up separately. If, however, he would accept the Amendment, it should be included in the overall Trade Bill.

February 22, 1973
Russell Long

1. Re import restraints, Long will support the authorities we are asking for.

2. Long agrees with our goal of a basic balance -- in fact he thinks we should demand it. However, he will give us some power, but wants to make sure we do not "keep going hopelessly in debt."

3. Re Adjustment Assistance -- Thinks we need a more effective program to provide new jobs. Need a concept of promoting enough economic activity to give everyone a job.

4. Re Pension Bill, it should be sent to Finance Committee. The Labor Committee would be disaster for business.

4. Re anti-inflation, thinks this authority is appropriate.

5. Re MFN, hasn't thought much about it. Seems the nomenclature is a problem -- call it "Equal Treatment". Thinks it might win if we lobby effectively ahead of time.

6. Generalized preferences OK, with condition that there is no preference against the U. S.

February 22, 1973
John Sparkman

Said proposed bill sounded good.

February 22, 1973
William B. Widnall
J. William Stanton
Albert W. Johnson
Ben B. Blackburn

Blackburn -- He's for freer trade, but doesn't like granting MFN to USSR.

Johnson -- The Bill has the quality of flexibility. There is complaint that Congress has given away its authority, but Congress must give the President this flexibility.

February 22, 1973
Gerald Ford
Les Arends
Herman Schneebeli

RE MFN -- Ford believes we will get the Vanik or Jackson Amendment. Ford believes MFN should be part of a Trade Bill because it would go to W&M. If sent up alone, it would go to Foreign Affairs Committee where it would get less good treatment. When the Conference Committee considers this, they can accept the Amendment, subject to the right of the President to go ahead if it is in the national interest.

February 22, 1973
Lud Ashley

Re Adjustment Assistance, he's afraid there will be resistance to the death of Adjustment Assistance, particularly as pension legislation would move anyway. To sell our alternative, and to avoid being accused of scuttling an existing level of assistance, it might be necessary to have the UI and Pension package at least as good -- the same level -- as the current Adjustment Assistance program. For political purposes in the House, the illusion is as important as the substance.

Re the reduction of tariffs to fight inflation -- This may well cause significant protest from special interests that could kill the bill.

Re MFN -- would be guided by Mills' judgment. However, Ashley says that we need not give the whole Vanik Amendment which prohibits MFN, Export Credit and Investment Guarantee. Rather than all three, Ashley says let's prohibit Investment Guarantee as long as there is an Exit Tax. The way this should be done, again, should be cleared with Mills -- and probably this would be a substitute to the Vanik Amendment.

February 23, 1973
Mike Mansfield
Robert Byrd

1. Mansfield -- He is against Jackson Amendment, but is sure it will pass.

2. Byrd -- If Mansfield, Byrd, Jackson, Long, and Fulbright agreed to keep the Bills separate, there's a chance to keep it separate. There is nothing to gain by putting it in the Trade Bill.

   Adjustment Assistance -- not sure our proposal is enough.

February 23, 1973
Harry Byrd

1. Re Adjustment Assistance, would find it difficult to support the U. I. provision.

   Byrd will be Chairman of a subcommittee on International Finance and Resources (Taxation of Overseas Investment, Foreign Investment, Sugar Act, and other International Matters other than Trade) and a member of the Pension Subcommittee.

2. Re MFN, "would have difficulty supporting this." Re keeping them separate -- it is hard to judge. In any event it would be better not to combine the two bills.

February 24, 1973
Wilbur Mills

1. Mills showed us a speech Solomon sent him on trade which he plans to make. The speech tracks with our proposals except:

(a) supports continued adjustment assistance

(b) proposes limits on the time for Tariff Commission and Executive Branch actions on import relief and adjustment assistance.

2. Timing -- would not send now. In the tax matter, he must finish tax hearings which will take until June. He will let go with an open rule and chaos will result and recommitment. "I don't care about tax reform." (I believe he is suggesting delay to support the 15% surcharge.)

3. Call it the Reform and Fair Trade Act.

4. NTB's -- make both Houses veto. Mills will think about our formula. Use Griffin, get Talmadge, cultivate Mondale, work with Bentzen.

5. Import Restraint -- limit imports "to not more than the percentage increase of consumption."

6. Unilateral Import Restraint -- GATT says no compensation if you do not cut back. Get tariff quotas for the restraint. (Look at House passed bill re escape clause in 1951.) Believes imports need to be only a "significant" cause of injury. Agrees with no connection of import relief and previous tariff reductions. (Churchill)

7. Trade with Communist Countries -- get a trade agreement giving us unilateral rights to hold out products. Unless you get some kind of protection against imports from communist countries where there is no way to establish costs -- you will never get the authority for MFN for communist countries. Mills didn't agree to MFN for Poland.

8. BOP Restraints -- Thinks we have authority and shouldn't cast it into question. However, I believe he would agree to this provision.

9. Adjustment Assistance -- Agrees with us, including U. I. and pension plans. Re U. I., it should require maximum payments equal to 2/3 of average m/g wage in the individual State.

10. Pension Plans -- Because workers in defense and space change jobs more often than most, there must be a pooling of retirement funds for people who work for government contractors.

11. MFN -- We should insist with Romania and USSR that they do away with their exit taxes.

Doesn't think it should be sent up until President has had his own conversation. But if we do send it up, send it up as a part of the Trade Bill and Mills would split it out and send it down -- amended -- as a separate bill.

12. Tax Bill --Income (1) limit on income tax payments of 50% on total income (rather than on rate); (2) Inheritance tax limited to 50%, but only 50% to charity. Also combine estate and gift tax rates. (3) Re capital gain, holding period at least a year. Then rate would decline in steps over five-year periods.

13. Timing -- Mills not back until March 9 or 10, but maybe on 7th. On Meet the Press on March 11. That would mean he would appreciate sending up during week of 13th.

Must keep tax hearings until April 4th. Will start, if we want, hearings on Trade at that time. He wants to back off of Tax Reform at that time.

Send bill up two weeks before the hearings, but not sooner. Mills feels that this is important enough -- in that it relates to Balance of Payments -- for a joint meeting of Congress.

Have Leadership on 14th.

February 26, 1973
Lloyd Bentsen

Wants the President to have authority -- and the Bill sounds OK, except MFN. However, he is generally very concerned about any further transfer of authority from Congress to the President.

March 5, 1973
Harley O. Staggers

Doesn't give a damn.

March 7, 1973
Al Ullman

Unfair Competition -- Speed up Tariff Commission.

Re Multilateral Import Restraint, if managed by GATT, may not be acceptable. Think about another mechanism.

Adjustment Assistance -- OK

MFN -- Believes President should have authority. Recommends sending up clear Bill (but doubts we can get) and he will help get veto provision as a "fall back".

March 13, 1973
Abe Ribicoff

"Would not be comfortable" with the Javits formula. Does not believe the Congress would accept it, as they "are reluctant" to veto a Presidential action. Would rather "let the Russians sweat it out".

March 12, 1973
Joe Waggonner

1. Generally approves Bill, if Congress has a look at NTB's.

2. Worried about UI acceptability.

3. Likes Javits' approach on MFN -- After Mills get Podell and Jack Bringham.

4. Re timing -- Get the Bill up on the 26th. Also get understanding that Mills will stick with Trade 'till it's passed the House.

MEMORANDUM

B.T. Says O.K. (Max F.)

COUNCIL ON INTERNATIONAL ECONOMIC POLICY

March 6, 1973

~~MEMORANDUM FOR:~~ ~~MAX FRIEDERSDORF~~

~~FROM:~~ TO: LARRY BRADY LB

~~SUBJECT~~: Trade Legislation Luncheons and Briefings

From: MAX F

Frankly, Max, I'm a little confused at this point, and I think we may have a semantic misunderstanding. As you know, Pete has been consulting with a good many principals on the Hill. He now proposes doing the same with:

a) a small luncheon with Bill Pearce and Bill Eberle of STR with Bob Best and Morris Amitay (OK'd by Korologos), Harry Lamar, John Martin, Dick Wilbur and Tony Solomon (trade consultant for Wilbur Mills); and

b) with a larger group of Hill staffers (see Brady-Timmons memo attached); and

c) with the so-called trade professionals in the city, i.e., private individuals who have extensive experience and expertise in the trade field.

Attached is a memo (referred to above) I've received from Bill Timmons regarding a general staff consultation. When Bill says that this should not be scheduled until after all "the principals have been briefed," does he mean we have to wait for the leadership briefings which I understand will come around the 26th? I had interpreted the "principals being briefed" to mean after Flanigan has finished with the series of consultations he has had on the Hill.

As you know, my immediate concern is the luncheon. It might be good, however, to get these other things ironed out also. Basically I guess the question is do consultations with the Hill staff and a few selected outsiders wait for the leadership briefing or does Bill mean that we can proceed with these others when Flanigan has substantially finished the consultations he has been having on the Hill?

Attachments

THE WHITE HOUSE

WASHINGTON

March 6, 1973

MEMORANDUM FOR: LARRY BRADY

FROM: WILLIAM TIMMONS

Subject; Your March 2nd memo

We have no objections to Pete briefing appropriate Hill staff on Trade and have marked up your suggested list. I assume that no staff briefings will be scheduled until after all principals have been briefed .

If you'll let me know when scheduled I'll see if a Member of my staff can't sit in on sessions.

TO:
KAY BULOW
3/2

~~Dick~~ / ~~Jon~~

What think?

K

As per my deletions/
Dick Clark

AS PER DELETIONS
OK - TK

MEMORANDUM

COUNCIL ON INTERNATIONAL ECONOMIC POLICY

March 2, 1973

MEMORANDUM FOR: BILL TIMMONS

FROM: LARRY BRADY LB

Pete has expressed a desire to brief Hill staffers after he has completed his consultations with the Senators and Congressmen.

1. One or two groups would be invited down to our conference room and given the same kind of briefing that he's been giving the principals.

2. Pete would do it along with some of the STR people.

3. Sometime during the week of March 5.

4. Attached is a rather lengthy list of staff members who have an interest in the subject (some of whom were briefed by Dick Allen and Pete Peterson last year).

Questions:

1. May we have some guidance on the whole matter?

2. Would you look over the list for us, adding or subtracting as you see fit?

Attachment

POSSIBLE STAFF ATTENDEES OF ADMINISTRATION
TRADE LEGISLATION BRIEFING

SENATE

George Pritts	Fannin
Pat Abshire	Brock
Morris J. Amitay	Ribicoff
Chris Sylvester	Young
~~(Neil Jorensen)?~~	
John Childers	Percy
Ken Davis	Scott
Tom Dine	Church
Carl Marcy	Foreign Relations
~~Charles Ferris~~	~~Mansfield~~
Goldberg	Mathias
Ken Guenther	Javits
Ed Kemp	Packwood
David Huber	Cook
Dave Lambert	Fulbright
Robert Locklin	Sparkman
~~?Bill Mills~~	~~Case~~
Michael McLeod	Agriculture
Walt Evans	Hatfield
Dan Minchew	Talmadge
Clyde Flynn	Griffin
Richard N. Perle	Jackson
Vince Rakestraw	Saxbe
William Schneider	Buckley
Steve Terry	Aiken
A. T. Wall	Montoya
Joe Gonzales	Appropriations
Jim Woolsey	Stennis
Mel Levine	Tunney
Manny Rouvelas	Magnuson
Dave Clanton	Commerce
Mike Burns	Banking
Dudley O'Neill	Banking
~~Michael Stern~~	~~Finance~~
Bob Best	Finance
~~Rob Vastine~~	~~Percy~~
Bill Taggert	Dole
~~Bob Wolthuis~~ MARCIA MADSEN	Bennett

Curtis - Don Shastreen
Mondale -
Hansen - Paul Hoetz
Roth -
Hartke -
Byrd (va) -
Nelson -
Gravel -
Bentsen -

HOUSE

Harry Lamar	Ways and Means
John Martin	Ways and Means
~~?Frank Meyer~~	~~Ford~~
~~Harry Nicholas~~	~~Conable~~
~~?Bob Ruckin~~	~~Ullman~~
~~?Charles Ward~~	~~Albert~~
?A.R. Westfall	Foreign Affairs
Everett Bierman	Min. Counsel, Foreign Affairs
Dick Wilbur	Min. Counsel, Ways and Means
Marian Czarnecki	Foreign Affairs
~~Mrs. Hallett~~	~~Corman~~
Carol Stitt	House Republican Task Force on Foreign Economic Policy
Joseph Jasinski	Banking and Currency (Ashley)
Chuck Levy	Culver
Paul Nelson	Banking
Orman Fink	Banking
~~Van Rose~~	~~Banking~~
~~Graham Northup~~	~~Banking~~
	Burke
	Griffiths
	Betts
	Fascell
	Reuss

DL