Statement to Committee on Resolutions

by

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When President Nixon took office four years ago he inherited an economy which had some fundamental problems in the pipeline. Years of financing the Viet Nam War through deficit spending had set the stage for persistent inflation. Permit me, this morning,to focus on the international competitive aspects. The United States' record of rapid economic growth was showing signs of serious deterioration as compared to our new competition, our strong competition from abroad -- a record worse than that of most of our trading partners. Concurrently, the rate of growth in industrial production had fallen in the second half of the 1960's to 3.9 percent; a rate which surpassed that of only the United Kingdom, among our trading partners, and a rate about one-quarter that of the Japanese.

Accompanying this disappointing rate of real growth was a rate of inflation which had more than tripled between the first half and the second half of the 1960's. U.S. goods were increasingly priced out of foreign markets.

U.S. lenders raised their interest rates to compensate themselves for the anticipated depreciation in the value of their money. U.S. businessmen curtailed their investment programs in the hopes that a future day would permit borrowing at more favorable rates or in the despair they could no longer be competing. To reverse these trends and because it was dramatic, it riveted our attention and indeed the world's attention on the simple but in important ways, ignored the fact that we were all living in a new world -- a more economic world and more certainly a more competitive one.

It has in some ways been a painful shakeout, but in all ways it was a courageous move. Today the dramatic success of the President's new economic program is clear. The rate of increase in consumer prices which ran at a rate of 4.6 percent in the second half of the last decade, and at a slightly lower rate of 4.3 percent through 1971, was cut to only 2.7 percent in the ten months beginning August 1971. To give you some idea of what this means in relative terms, in the six months ending in March 1972, Japan experienced a 4.8 percent consumer price increase, West Germany a 5.7 percent increase, the United Kingdom a 8.5 percent increase, and Canada a 4.4 percent increase.

How has the U.S. done in economic growth V.S. our international trading partners? In the three quarters beginning in October 1971, real GNP in this country has grown at a rate of 7.4 percent, faster than the growth of any of our major trading partners. U.S. industrial production in the ten months beginning August 1971 has increased at a rate of 8.1 percent, again substantially better than any of our major trading partners.

Clearly then, the engine of U.S. prosperity is once again on track. Because of my jurisdiction, however, I take particular pride in the progress this Administration has made in the area of international competitiveness and trade.

TRADE

The President has said repeatedly, during his four years in office, that this Administration is dedicated to an open system of international trade. A single country, however strong its economic base, cannot alone pursue this course in a world characterized by currency disequilibrium and discriminatory trade barriers.

On both of these matters, the President and his Secretary of Treasury John Connally took a firm stand. Their goal was a free and open system, but their approach was that of the hard-nosed Yankee trader who wanted more trade, to be sure, but also insisted on a square deal. Both the 10 percent surcharge and the closing of our gold window were tactically designed to help the U.S. bring about a square deal and at the same time, a cooperative multilateral solution to these monetary and trade problems.

With the Smithsonian agreement last spring the President achieved a major realignment in the parity of our currency. And next month will see the beginning of negotiations to tackle another long ignored problem -- fundamental reform of a monetary system that for years had gone neglected and, as such, had become obsolete.

At the same time, this Administration has been moving on a number of fronts to reduce trade barriers around the world. In February of this year, in the wake of the Smithsonian Agreement, we committed in formal agreements with Japan and the European Communities, subject to Congressional approval, to undertake comprehensive negotiations in the GATT in 1973 that will aim at expanding trade on a worldwide basis by reducing both tariff and nontariff barriers.(NTB'S)

For example, recommendations for solutions to selected NTB problems are being formulated on customs valuation and import licensing and it is expected that an agreed approach to the crucial area of product standards will be developed by the end of this year. The GATT work program was recently expanded to include export subsidies, and packaging and labelling restrictions. In the meantime Bi-lateral trade negotiations are being conducted and anti-dumping regulations, for the first time, are being vigorously enforced.

Thus, despite this Administrations strong commitment to an open world principle, it has made clear that it will not accept a beggar-thy-neighbor attitude on the part of its trading partners. After all, a trade policy based on the impoverishment of one's neighbors is ultimately self-defeating. A country which has poor neighbors is a country which lives in a poor neighborhood.

I must say, I read with considerable surprise criticisms of the exchange rate changes and, in particular, the devaluation of the dollar by some of the same people who are advocating protectionest and isolationistist and, in my view destructive solutions to what they inaccurately call "job exporting" practices of American corporations which in fact are creating U.S. jobs. In plain fact, it was the "Beggar-Thy-Neighbor" chronically undervalued exchange rate policies of some of our trading partners that were exporting U.S. jobs and there was the President's August 15 program that will result in the import of these lost jobs back to the USA.

In an area related to both trade and balance of payments, this Administration has stepped up the U.S. Maritime program. Embodied in the Merchant Marine Act of 1970, is President Nixon's goal for the 70's -- restoring our Merchant fleet to a vigorous competitive position on the high seas, and restoring employment in our shipping and ship-building industries at home and doing it at lower costs to the taxpayers. During President Nixon's first term a total of $1.1 billion in new or modernized ships were contracted and the contracts require only 4 percent subsidy as compared with the 55 percent which was permitted in earlier years.

EAST-WEST TRADE

In addition to its general trade expansion activities, this Administration has simultaneously taken the greatest strides in three decades toward opening the enormous markets of the Communist world to U.S. businessmen. Three times in the past year, officials at the Ministerial level, beginning with Secretary Stans' exploratory visit to the Soviet Union last November, and most recently with my visit to Moscow last month, have met to consider ways in which impediments to trade between our two countries can be removed. In our most recent talks, both sides were able, for the first time, to put concrete proposals on the table for discussion. There has been encouraging progr~~ams~~ess, and there will be more meetings to come.

One of the reasons that we do not have signed trade agreements is that we are not looking for a quick cosmetic deal. We could have that tomorrow. What we seek are comprehensive agreements that will enable us to forestall the emergence of exacerbating differences in the future.

Also, it is certainly not our purpose to bargain away this Nation's security simply to see improvement in our trade statistics. Sensitive security sectors of our country will continue to be protected and are not negotiable.

This is not to say that there are not broad security pluses to our talks. The political and military accommodations such as those reached with the Soviet Union in the SALT talks last May, cannot be lasting unless they are parallelled by mutual welfare gains. As Henry Kissinger has observed, "changes in atmospherics . . . not buttressed by concrete progress, will revert to previous patterns ~~of~~ at the first subsequent clash of interest."

In an era of reduced military confrontation, the opportunities for such buttressing are nowhere greater than they are in the area of commerce. Closer economic ties bear both cause and effect relationships to relaxation of political tension. Improvement in political relationships is a prerequisite for improved economic relationships, but once in place, economic ties create tangible increases in the welfare of both peoples and a communality of interest which in turn improves the environment for further progress on the political side.

COMPETITIVE AMERICA

But improved access to world markets will be of no benefit to the United States unless the U.S. economic machine remains competitive in the international context. Improved competitiveness is essential, not only to reap the benefits of an open world, but also to deflate the pressures for reversion to the protectionism of Burke-Hartke-type legislation.

The key to competitiveness, of course, is productivity. In the last five years of the 1960's, we had the worst record of any major power in productivity. Out total productivity increased 10 percent in the same time that Europe's productivity rose 40 to 50 percent and Japan's 90 percent. Accordingly, in June of 1970 President Nixon announced the creation of the Productivity Commission which, as Secretary of Commerce, I now head. At the time, the President noted that his action was taken "in order to achieve price stability, healthy growth and a rising standard of living."

Today we can point to significant gains in the area of productivity. In the second quarter of this year, output per manhour, the measure of productivity, rose by 6 percent in the private sector, the largest single increase since the beginning of 1965. At the same time, a slowing in the rate of increase in compensation per manhour resulted in an absolute decrease in the cost of labor per unit of output.

At the same time this Administration has attacked another problem of productivity through President Nixon's unprecedented Minority Business Enterprise program designed to encourage minority citizens to ~~take~~ get "a piece of the action" so to speak, in a field that for too long had been characterized by talk not action.

The President's New Economic Policy was designed also to stimulate productivity by stimulating a more modern and efficient -- and therefore competitive -- industrial sector. The record speaks for itself. Investment in new plant equipment, which rose by only 2 percent last year, will rise by 10-½ percent this year. Prior to this, some of our leading competitors were spending ~~twice as~~ much more of their GNP on new ~~plans~~ plants and equipment -- with the result their ~~plans~~ plants were twice as new as ours.

These tax incentives were criticized by some who proposed instead a tax program aimed at wholesale income redistribution. This Administration is on record in favor of income redistributing tax changes. But, to those who would make them a substitute for the business incentive tax changes, I would suggest that they give some thought to what it is they are redistributing. While corporate profits in dollar ~~prices~~ terms moved up in the first quarter of 1972, real corporate profits were 22 percent lower in the first quarter of this year than they were six years ago. At the same time real wages were 14.8 percent higher.

Finally, the President has attacked the program of U.S. business competitiveness with a program to stimulate research and development. Rather, however, than simply adding across-the-Board r and d incentives that would ~~cut~~ cost billions of dollars, the President has instead proposed getting a good deal more industrial Bang from the governments r and d. He has instructed us to examine government contracting and patent policies to get more job creating commercial fallout. He has submitted specific proposals to encourage the small companies and "Yankee inventor" to help create the new products and then of course the new industries and the new jobs.

In short, we must remember our goals.

We want an open world not a closed one. We want a prosperous and employed world, but one in which each ~~company~~ country prospers by its increased productivity and not at the expense of his ~~probing~~ trading partners. We want a competitive world because we believe that everyone, and more certainly ~~important~~ the consumer benefits important. We can make no more contribution to this kind of world than to continue the vigorous and productive and competitive growth than this administration has done so much to restore.