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ADDRESS BY SECRETARY OF COMMERCE ELLIOT L. RICHARDSON PREPARED FOR DELIVERY BEFORE THE THIRD INTERNATIONAL TRADE CONFERENCE OF THE SOUTHWEST, HALL OF NATIONS, WORLD TRADE CENTER, DALLAS, TEXAS, WEDNESDAY, MAY 19, 1976

Being here tonight to celebrate International Trade Week, I am reminded of a relevant incident from our history. The year was 1860. South Carolina had declared itself a sovereign nation. The Charleston Mercury was publishing reports from northern cities under the heading "Foreign News." The Confederacy was forming -- over Sam Houston's objections, I might add.

President Buchanan proclaimed a fast day and speculated, privately, that he would probably be the last President of the United States. But the orator, Wendell Philips, had a different view:

> "Let the South march off with flags and trumpets," he declared. . ."Let the border states go. Then we part friends. The Union thus ended, the South no longer hates the North. . .The laws of trade will bind us together as they do all lands."

Trade was important then; it is even more critical today in this age of economic interdependence and upside-down, inside-out economics. We value trade, first of all, for the higher standard of living it makes possible -- for the natural resource and other imports which we have come to depend upon but cannot supply domestically. We value trade, in addition, for the export revenue it produces and for the profits it generates. But, today, there is a third reason why trade is more crucial to this nation than ever before: it creates and supports jobs.

There is a "job gap" in America today and filling it must be our number one domestic priority. The Administration is, of course, taking a number of actions to accomplish this. A tax cut for individuals was proposed -- and legislated -- to increase demand. A tax incentive plan for business has been recommended -- to boost profits and stimulate capital formation, but this is yet to be acted upon by the Congress.

The economy is improving. We've added about 2.6 million jobs in the last 10 to 12 months, and more Americans are gainfully employed than ever before in our history. Nevertheless, closing the "job gap" will be a test of our mettle. It remains an objective -- not a *fait accompli*.

In the past, in times of heavy unemployment, we have resorted to the traditional Keynesian formula: expand demand.

Huge infusions of tax dollars have been poured into the economic pump and jobs have flowed out. Now, we face mounting evidence that this approach is not the answer.

Pump-priming works when unemployment is combined with deflation. Unemployment in the United States of the seventies, however, is coupled with inflation.

Economists tell us that our problems are rooted not so much in demand as in supply -- in the economics and politics of scarcity. They are correct in that assessment, in my view. Where once we concerned ourselves primarily with the so-called "balance of power," today we must contend with the ricocheting effects of "commodity power."

In the past three years alone, we have experienced:

* the Arab oil embargo and rapidly-rising petroleum prices;
* a worldwide grain shortage and climbing flour and feed prices;
* a cattlemen's "revolt" resulting in a scarcity of beef and higher meat prices;
* an apparent sugar "holdout" followed, my wife tells me, by zooming sugar prices; and
* a poor coffee harvest in Latin America leading to a scarcity of coffee and bounding coffee prices.

There has even been a blueberry shortage which, if you watch Chanel No. 5 commercials, should make Catherine Deneuve very unhappy because she l-o-v-e-s blueberries.

"Scarcity," whether actual or contrived, sets off a chain reaction to joblessness. Let me cite just one example. In 1973 and 1974, shortages of petroleum -- and public uncertainty about the availability of petroleum -- contributed to a dramatic drop in job opportunities in the travel and other related industries. The Department of Labor found that between November 1973 and February 1974, between 125,000 and 200,000 American jobs, mostly in the service station and airline industries, were lost as a direct result of the fuel crisis. Airline layoffs alone reached 15,000. Manufacturers of automobiles, small aircraft and recreational vehicles, and operators of amusement businesses, laid off another 300,000 workers.

In retrospect, what originated as a supply problem became a price problem and then a profit problem and finally a job problem. Airline fuel costs, which had risen only 13% between 1967 and 1972, jumped 20% in the single month between December 1973 and January 1974 -- and then shot up another 160% by mid-year. As costs rose, so did air fares, and discretionary traffic tumbled. Scheduled airline traffic fell 7%; charter traffic plunged 17%. Globally, tourist arrivals dropped 3% to 209 million in 1974, the first such decline in recorded tourism history. Shriveling traffic and rising costs contributed to profit squeezes and a shrunken job market.

If there is anything this sequence of events should tell us it is that problems of supply cannot be solved solely by fueling demand; they are complex manifestations of the interdependence of our twentieth-century world. They have their origin in international politics, in the emergence of the so-called "Third World," in accidents of geography and in uncontrollable natural phenomena such as the weather. They are compounded by -- and coexist with -- domestic conditions such as declining productivity, lagging private investment and inadequate capital formation. "Stagflation," in short.

Clearly, if the present scheme of things is to be righted, we must address the circumstances which are responsible for our shortages. Simply put, we must recognize the political and economic interests -- and muscle -- of the Third World.

One way to do this is to expand export opportunities of the developing nations, and I can report that the Administration is moving forward on this front.

In January, President Ford instituted a system of generalized tariff preferences, in alphabet soup jargon, "GSP." This system allows some 2,724 categories of imports from nearly 100 LDCs and some 40 dependent territories to enter the United States duty free.

It should be of some interest that among the products eligible for preferences are items which have been scarce in this country in recent years -- wood and paper products, for example, and sugar. If, when visiting these United States, Catherine Deneuve can find any blueberries, she now will be assured of having sugar to put on them.

Products of the OPEC nations are not currently eligible for preferential treatment. They <u>would</u> be if OPEC were to conclude a trade agreement assuring the U. S. of equitable and reasonable access to supplies of commodity reserves and markets. Under the Trade Act of 1974, preference privileges cannot be extended to countries which withhold supplies of vital commodities from international trade or raise the price of such commodities to a level high enough to seriously disrupt the world economy.

There is at least some incentive for OPEC to change its policies: preferences give LDCs an edge over developed countries in competing for the U. S. market -- at least in those article classifications eligible for GSP treatment.

Obviously, GSP is not the whole answer, just as commodity power and scarcity are not the only problems. We must also do something about economic stagnation.

Inflationary pump-priming is being touted in some quarters. That is no panacea, in my opinion. Intensive export promotion and stimulation of private investment constitute the sanest and surest approach.

Admittedly, present proposals to "make" work are tempting; they are also deceptive. A United States Leaf Raking Corps would provide an immediate, short-run "solution" to the job gap. But its creation would not stimulate the long-run economic growth which could create real, permanent jobs, nor would it solve our serious problems of scarcity. Such an expedient would, in the last analysis, have about as much impact as this hand-lettered sign which appeared on a Washington office wall back during the early days of the New Deal:

> "Buy something," it read. "Buy anything, anywhere. Paint your kitchen, send a telegram, give a party, get a car, pay a bill, rent a flat, fix your roof, get a haircut, see a show, build a house, take a trip, sing a song, get married. It does not matter what you do -- but get going and keep going."

What we do does matter. The world has grown infinitely more complex since the thirties when traditional Keynesianism was first applied. We no longer live in a self-contained vacuum, if in fact we ever did. We can no longer entertain delusions of self-sufficiency. We are one nation in a "global village," and we have to cope with the consequences of interdependence.

Basically, interdependence is what our present problems are all about. World trade statistics offer striking evidence of this fact: 16% of the world's production today is traded internationally, double the volume of 25 years ago.

It is further indicative that <u>this</u> country imports 100% of its tin, manganese and chrome; about 90% of its nickel, roughly 55% of its titanium and 40% of its petroleum. At the same time, it exports to other countries 60% of its wheat, 50% of its soybeans and 33% of its cotton and tobacco. "International trade," Ambassador Dent pointed out recently, "has woven our national economies into an interdependent economic fabric."

The situation is rather reminiscent of an analogy former Presidential Assistant Robert Cutler used to draw, back during the Eisenhower Administration. "The world," he said, "is a seamless web...A touch upon the fabric here or there and strands everywhere are pulled out of place..."

Consider, for a moment, that in the last 30 years or so, we have seen the dawn of --

- regional customs unions
- common markets
- multinational corporations, and
- international financial institutions such as the World Bank and the International Monetary Fund.

Local product markets have developed into world product markets; regional capital markets have integrated; and informal contacts between citizens of different nations have grown rapidly through tourism.

A Ford Motor Company executive said not too long ago that, "We...look at a world map without any boundaries." An economist for the U. S. Council of the International Chamber of Commerce has suggested that, "for the first time, men are in a position to treat the world, itself, as the basic economic unit."

Corporate treasurers shift their liquid funds from country to country and from currency to currency in response to capital market conditions. Within the European Common Market, production managers reach across national borders to tap pools of labor in other countries.

Within the next two years, if all goes according to schedule, we should witness the first direct elections to the European Parliament. Meanwhile, this month, we mark the beginning of scheduled, supersonic air service which brings the Old World three-and-a-half hours closer to the New. The nations of this spaceship Earth have never been so interdependent.

In the seventeenth century, John Donne, the English poet and onetime Dean of St. Paul's, in London, penned these thoughts:

> "No man is an Iland, intire of it selfe; every man is a peece of the Continent, a part of the maine; if a Clod bee washed away by the Sea, Europe is the lesse, as well as if a Promontorie were, as well as if a Mannor of thy friends or of thine own were. Any mans death diminishes me, because I am involved in Mankinde. And therefore never send to know for whom the bell tolls. It tolls for thee."

If we are going to find sane and sound solutions to the job gap, we must recognize the import of Donne's words because they remind us that what we are tackling is not just an isolated, internal problem; it is part of a larger scheme of things, a "part of the maine." Pump-priming addresses domestic economic symptoms. It cannot cure the foreign causes of a complex economic disease. Nor, in our present state of "stagflation" can it do anything but intensify upward pressure on prices. Ironically, Keynes, were he alive today, would probably be the first to tell us that. It was Keynes, in his book Economic Consequences of the Peace, who first foresaw that deficit Federal spending could be a double-bladed sword. This was his warning:

> "By a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens. By this method, they not only confiscate. . .they confiscate arbitrarily. . . There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner in which not one man in a million is able to diagnose."

To create useful, satisfying jobs which offer career opportunity will take more than Band Aids made of dollar bills; it will require sensible, rather than simplistic, solutions -- perhaps "approaches" is the better word. If my years in public life have taught me anything, it is that there can be no "solutions" in the absolute sense of the word. Often, the best that can be achieved is progressive adjustment.

Together, with other nations, we must work for freer trade. Each billion dollars in exports creates or maintains 48,000 American jobs. By increasing exports of goods and services by $20 billion, we could create nearly one million new employment opportunities. Could we ever keep busy that many leaf-rakers?

We will continue our participation in international trade negotiations. We will seek to reduce trade barriers. We will press for reform of international trading rules.

One priority is a formula for achieving further cuts in tariffs. We will continue to pursue this at the Multilateral Trade Negotiations in Geneva.

Another broad objective is the reduction or elimination of the existing thicket of non-tariff barriers operative in the international marketplace:

- quantitative restrictions
- licensing requirements
- government subsidies
- foreign government procurement policies, and
- a variety of impediments to the international sale of services.

These barriers tend to have an adverse impact on U. S. trade and U. S. jobs and we intend to negotiate them down. A foreign government subsidy, for example, may lead to increased imports of the subsidized product into the U. S. market; increased competition for U. S. firms attempting to sell their products in third country markets; or greater competition for U. S. products being marketed in the subsidizing country.

If we can reach agreement with our partners on new trading rules dealing with such practices, we can expand the market for U. S. products, we can expand sales for U. S. companies, and we can expand job opportunities for U. S. citizens.

Legislation of tax incentives is another imperative. We seek a prompt and permanent reduction in corporate income tax rates from 48% to 46%. This would increase return on investment and encourage new risk-taking and plant modernization or expansion.

Additionally, we will work to wipe out inequities in the existing tax structure which tend to encourage corporations to seek debt financing rather than equity financing. I refer specifically to double taxation of income, once in the hands of the corporation, then a second time in the hands of the stockholder.

Existing treatment of capital gains should be changed if we are to create savings, promote capital formation, and to close the job gap. To achieve this, the Administration is striving for a sliding scale for capital gains and losses.

In this age of the "seamless web," we cannot risk exporting our problems instead of our products. We must employ those instruments of job generation which will create genuine opportunity with a minimum of inflationary pressure. That is why trade is so important. That is why your efforts to expand trade for the

Southwest are so important. That is why the Administration is seeking solutions to the contentious disputes which block U. S. access to resources and to markets.

Our task is large. The economic and political problems of our times are not going to disappear overnight; they weren't created overnight.

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