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SOME ASPECTS OF UNITED STATES FOREIGN TRADE AND THE KENNEDY ROUND

The recently completed Kennedy Round of trade negotiations perhaps represents the high mark in the overall trend toward liberalization of United States foreign trade policy that began in the early 1930's. That trend, in effect, involves a gradual but steady reduction of artificial barriers to foreign trade, which will be assisted importantly in 1972 by the final stage of tariff cuts under the Kennedy Round. The purpose of this article is to review briefly both United States foreign trade policy and United States foreign trade patterns, as well as to provide some perspective on the Kennedy Round.

LIBERALIZATION OF UNITED STATES FOREIGN TRADE POLICY

Reciprocal Trade Agreements Program. The first phase of the trend toward liberalization of United States foreign trade policy is identified with the enactment of the Reciprocal Trade Agreements Act of 1934. By that Act, the Congress gave the President authority to reduce then existing tariff duties by 50 percent. Perhaps the most significant aspect of the Act was the inclusion of the most-favored-nation clause, which limits discrimination in trade by extending to third parties the same terms provided to contracting parties. This clause has become a fundamental principle of United States trade policy, as well as a cornerstone of international trade.

The express purpose of the Reciprocal Trade Agreements Act of 1934 was to make bilateral agreements that would increase United States exports and hence employment, as long as there would be no injury to domestic industry. Actually, there was little possibility of injury because of highly protective tariff rates and an item-by-item approach to negotiations, which allowed certain commodities to be excluded if a decrease in rates would result in an increase in imports.

The Reciprocal Trade Agreements Act was extended every three years and by 1945, the United States had concluded agreements with 29 countries. The trade agreements and increased prices on imported commodities combined to reduce the average rate of tariffs on dutiable imports into the United States from 47 percent in 1934 to 28 percent in 1945. (Increased prices on imported commodities that are covered by specific duties reduced the *ad valorem* equivalent.) In 1945, the President was again given authority to cut rates by an additional 50 percent.

During the period from 1934 through 1947, trade negotiations under the Reciprocal Trade

TABLE I
Dimensions of Agreements Under GATT

Major Agreements	No. of Contracting Parties	Value of World Trade Involved (Bil. $)	Percent of Average Tariff Reduction
1947 Geneva	23	$10.0	n.a.
1949 Annecy, France	33	n.a.	n.a.
1951 Torquay, England	37	n.a.	n.a.
1956 Geneva	35	2.5	4%
1962 Geneva (Dillon Round)	40	4.9	7
1967 Geneva (Kennedy Round)	70	40.0	35

n.a. Not available.

Sources: U. S. Department of Commerce; General Agreement on Trade and Tariffs; Gerard Curzon, *Multilateral Commercial Diplomacy*, (New York: Frederick A. Praeger, 1966), p. 81.

Agreements Act were conducted on a bilateral basis (country-by-country) and item-by-item. The trade agreements helped to reverse the world trend toward higher tariffs, but had little effect in reducing other barriers to world trade, such as quotas and internal taxes.

General Agreement on Tariffs and Trade. A second phase of the trend toward liberalization of United States trade policy came early in the post-World War II period. In 1947, the United States and 22 other major trading nations negotiated simultaneously for both reduction of tariffs and removal of trade barriers. These multilateral negotiations were conducted at Geneva and culminated in the General Agreement on Tariffs and Trade (GATT). (At the time of the GATT negotiations, nations were also working toward setting up an international trade organization (ITO), but the effort was abandoned due to the inability to obtain ratification by participating nations.) A major aim of GATT is to reduce trade barriers. Its fundamental operating principle is that trade should be carried out on a nondiscriminatory basis. GATT membership now includes some 70 nations that account for about 80 percent of total world trade.

The dimensions of the major "rounds" of negotiations held under the auspices of GATT are presented in Table I. The first two rounds, held at Geneva (1947) and Annecy, France (1949), are regarded as significant, both in terms of tariff reductions and in setting up the structure of GATT. The next two rounds (1951 and 1956) are considered as less fruitful, partly because of lack of agreement over the issue of tariff disparities; that is, the difference between a high tariff of one country and a low one of another country. Failure to resolve this issue, in conjunction with the United States supported movement toward integrated economic and military policies, prompted six continental European countries — Belgium, France, Italy, Luxembourg, the Netherlands, and West Germany — to band together in 1957 to form the European Economic Community (EEC), the wellknown Common Market. Under the Treaty of Rome, these nations agreed to work among themselves to eliminate trade barriers and to establish a common external tariff. Two years later, seven other European countries — Austria, Denmark, Norway, Portugal, Sweden, Switzerland, and the United Kingdom — formed the European Free Trade Association (EFTA).

Faced with the prospects of discrimination against this country's exports, the United States attempted further steps toward liberalizing trade policies. The then Under Secretary of State, Douglas Dillon, proposed another general round of trade negotiations. The Dillon Round in 1961-1962 resulted in further reduction of average world tariff rates, but fell short of the goal of a 20-percent reduction in tariffs, and failed to resolve some unsettled problems of the 1956 round, especially those involving trade agreements with less-developed nations.

The Trade Expansion Act of 1962. The next major move in United States trade policy involved the Trade Expansion Act of 1962. By that Act, the President was given authority to reduce tariffs up to 50 percent of the rates existing as of July 1, 1962, to eliminate tariffs on products in which the United States and the EEC together account for at least 80 percent of world trade, and to eliminate rates that did not exceed five percent. Perhaps most significantly, the 1962 Act empowered the President to negotiate across-the-board tariff reductions (rather than item-by-item) and modified the safeguard provisions of the old trade agreements program.

The Kennedy Administration viewed the Trade Expansion Act of 1962 as an important change in the underlying rationale and objectives of United States foreign trade policy. An important pragmatic objective of the 1962 Act was to assure United States access to the Common Market. In the absence of broad changes in United States commercial policy, Common Market tariffs would be discriminatory and thus restrictive to United States trade. The Trade Expansion Act represents an attempt to put into practice the theoretical basis for freer trade; namely, the attempt to achieve a more efficient allocation of world resources.[1]

[1] The difference between the 1962 Act and the earlier Reciprocal Trade Agreements Act lies mainly in the fact that the specific aim of the latter was to reduce tariffs to promote United States exports. President Roosevelt stated in his message to Congress requesting passage of the Reciprocal Trade Agreements Act of 1934 that the aim of the Act was "to modify existing duties and import restrictions in such a way as will benefit American agriculture and industry"; but the President also cautioned that "no sound and important American interest will be injuriously disturbed." Presidents Truman and Eisenhower made similar assurances that domestic goods would be protected in the export expansion process. As tariff reductions became more meaningful, legislation to safeguard American industry was included in various extensions of the trade agreements. A "peril point" provision was included in the Trade Agreements Act of 1948 in an attempt to put a floor on tariff reductions. An "escape clause" was added to the Trade Agreements Act of 1951 to provide the President with the ability to withdraw or increase tariff rates in cases where imports may "cause or threaten serious injury to a domestic industry." Amendments in 1955 and 1958 strengthened the escape clause. While the United States has made limited use of the escape clause, existence of the clause narrowed the extent to which tariffs could be reduced. During the 1950's there was, in effect, little progress toward actual liberalization of United States foreign trade policy.

The new trade act was geared to the idea of stimulating not only United States exports, but also world trade in general, with mutual benefits expected to accrue to all nations as a result of international specialization and trade. The expectation of benefits reflects the fact that liberalized trade policy should result in more efficient use of resources, which in turn fosters more rapid economic growth. In short, free trade provides an opportunity to maximize output and to obtain mutual benefits.

The Kennedy Administration acknowledged that further tariff reductions under the 1962 Act could lead to increased imports as well as exports. However, rather than new restrictions on trade, the President was provided with authority to institute various types of "trade adjustment assistance," such as readjustment allowances to unemployed workers, vocational training, and loans and tax benefits to employers affected by increased imports.

Under the authority of the Trade Expansion Act of 1962, the United States entered negotiations for the sixth round of discussion under GATT — the Kennedy Round.

RECENT TRENDS IN UNITED STATES FOREIGN TRADE

Before discussing some of the details of the Kennedy Round, it should be helpful to review United States foreign trade developments, both over the longer term and during the period when Kennedy Round negotiations were being conducted.

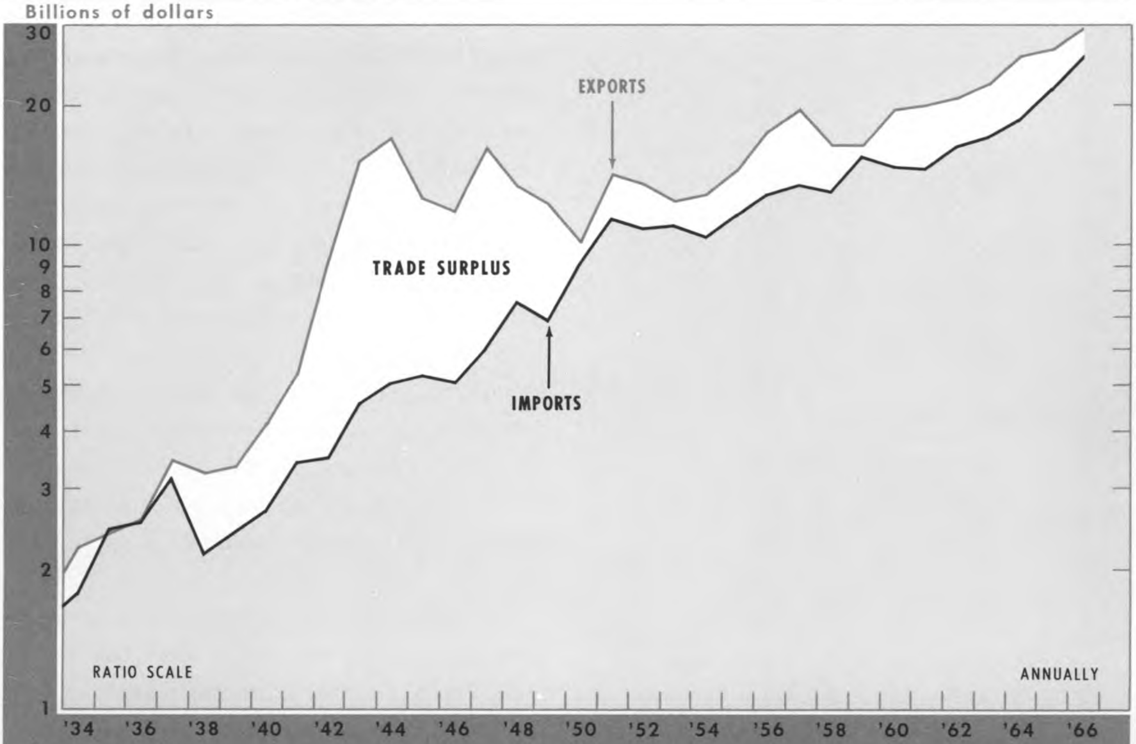
General Patterns in Merchandise Trade. United States merchandise trade (imports and exports) has grown dramatically from the relatively low levels of the 1930's. As shown in Chart 1, excluding the World War II years, a sizable portion of the expansion has occurred during the 1960's. Perhaps surprisingly, the size of the favorable mechandise trade surplus — the difference between exports and imports — has generally been larger during the 1960's than during any period except World War II and its immediate aftermath, and at the time of the Suez Crisis in 1956-1957 when United States exports of coal and oil increased appreciably. As Chart 1 shows, after substantial increases in the early years of the 1960's, the trade surplus narrowed in 1965 and then again in 1966.

The narrowing of the United States trade surplus in recent years reflected supply-demand conditions in the domestic economy that moderated export growth and stimulated imports, as well as a weakening of major markets abroad that adversely affected United States exports. In the case of the domestic economy, overheated activity during 1965-1966 helped keep potential exports at home and simultaneously encouraged the importation of some major items such as industrial materials and machinery. Despite the largely cyclical developments that narrowed the trade surplus in 1965 and 1966 — overheating at home and sluggishness in some places abroad — the fact that the United States maintained a fairly sizable trade surplus provides some support for the argument that United States exports, in general terms, are competitive in world markets. United States encouragement of the Kennedy Round reflects the desire of the United States (the world's largest trading nation) at least to maintain that competitive position — if not

Chart 1.

UNITED STATES MERCHANDISE TRADE*

1934-1966



*Excluding military.
Source of data: U.S. Department of Commerce

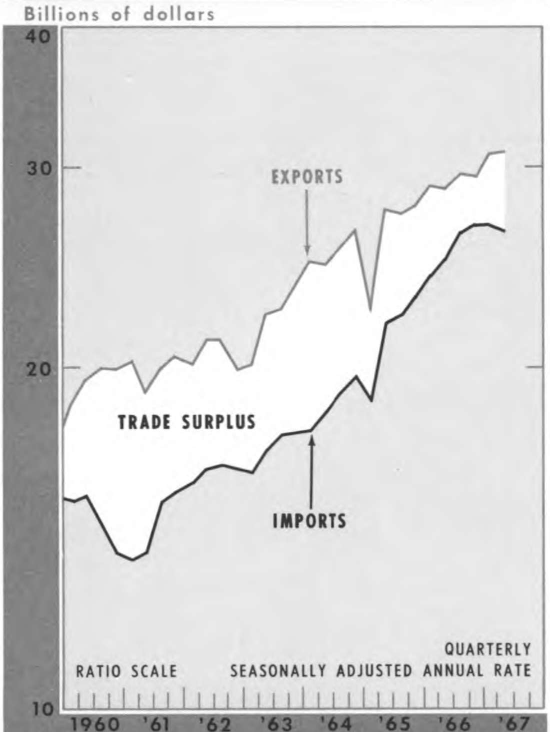
to improve it. It also reflects the practical consideration of attempting to lessen the ability of newly developed regional trade areas to divert trade in directions unfavorable to the United States.

As Chart 2 shows, after steady quarter-to-quarter deterioration since 1965, a turnaround in the United States trade surplus occurred in the first quarter of 1967 with further improvement in the second quarter. Sluggish economic activity in the United States during the first half of 1967, accompanied by reduced rates of inventory accumulation and easing in capital spending, helped to moderate United States imports. In particular, imports of machinery and other capital equipment, crude and processed materials (industrial supplies), and consumer goods (including autos) either declined or leveled off in the first half of 1967. On the other hand, improved supply conditions and shortened delivery schedules for domestic producers stimulated a moderate expansion of exports. In particular, exports of machinery (computers and parts as well as agricultural and construction machinery) and transportation equipment (aircraft) showed some improvement.

Estimates of the trade balance for the second half of 1967 imply some gradual further improvement in the trade balance, despite the

Chart 2.

UNITED STATES MERCHANDISE TRADE*
1960-1967



*Excluding military.
Source of data: U.S. Department of Commerce

fact that performance in the most recent months is not encouraging. Continued sluggish economic activity in most countries of Western Europe is expected to restrain any possible substantial gains in exports. Hopefully, appropriate public policy in the United States will help to guarantee that domestic economic developments do not change to the extent that another escalation of commodity imports, such as occurred in 1965 and 1966, would be generated.

Major Exports and Imports. Table II shows the major commodities in United States export and import trade, and indicates the commodities responsible for an acceleration of imports in 1965 and 1966. The upper half of the table lists "surplus commodities" — categories in which United States exports exceed imports — and the lower half shows "deficit commodities." As a general matter, the biggest trade items — machinery, food and live animals, and transportation equipment — are commodities in which the United States has a sizable trade surplus. Commodities whose importation accelerated in 1965 and 1966 include machinery (nonelectrical and electrical), motor vehicles and parts, crude materials, iron and steel products, nonferrous metals, and food and live animals. Except for motor vehicles and parts, these commodities were in short supply during at least part of the 1965-1966 period.

Several important developments in trade patterns evolved during the 1960-1966 period (see Table II). For example, food and live animals moved from deficit to surplus position; crude materials moved from surplus balance to deficit after 1961; and, finally, the surplus balances of nonelectrical machinery and chemical products increased appreciably over the 1960-1966 period.

Although some ground was lost in mineral fuels and textiles, perhaps the most publicized developments on the deficit side of the merchandise trade balance during 1960-1966 are the widening of the deficit in nonferrous metals and the shift from a surplus to deficit in iron and steel products. In the case of iron and steel products the swing amounted to more than $800 million.

At least two conclusions emerge from the cursory review of the data for 1960-1966 in Table II. First, as a general matter, wherever

TABLE II
Composition of United States Exports and Imports
Selected Commodities
1960-1966
(billions of dollars)

	Exports (Imports)													
	1960		1961		1962		1963		1964		1965		1966	
Surplus Commodities*														
Machinery‡	$4.5	($0.7)	$5.0	($0.8)	$5.4	($1.0)	$5.7	($1.1)	$6.5	($1.3)	$6.9	($1.8)	$7.7	($2.7)
Nonelectrical	3.4	(0.4)	3.7	(0.5)	4.1	(0.5)	4.2	(0.6)	4.9	(0.9)	5.3	(1.2)	5.8	(1.7)
Electrical	1.1	(0.3)	1.2	(0.3)	1.4	(0.4)	1.5	(0.4)	1.7	(0.4)	1.7	(0.6)	1.9	(1.0)
Chemicals	1.8	(0.8)	1.8	(0.7)	1.9	(0.8)	2.0	(0.7)	2.4	(0.7)	2.4	(0.8)	2.7	(1.0)
Transportation equipment‡	2.5	(0.7)	2.3	(0.6)	2.6	(0.7)	2.5	(0.8)	2.8	(0.9)	3.2	(1.1)	3.5	(2.1)
Motor vehicles and parts	1.3	(0.7)	1.2	(0.4)	1.4	(0.6)	1.5	(0.6)	1.7	(0.8)	1.7	(1.0)	2.2	(1.8)
Aircraft	1.0	(0.1)	0.9	(0.1)	1.0	(0.1)	0.8	(0.1)	0.9	(0.1)	1.1	(0.1)	1.1	(0.3)
Food and live animals	2.7	(3.0)	3.0	(3.0)	3.2	(3.2)	3.7	(3.4)	4.1	(3.5)	4.0	(3.5)	4.6	(3.9)
Deficit Commodities†														
Crude materials	2.8	(2.7)	2.8	(2.5)	2.2	(2.7)	2.5	(2.7)	3.0	(2.8)	2.9	(3.0)	3.1	(3.3)
Textiles, other than clothing	0.5	(0.6)	0.5	(0.5)	0.5	(0.7)	0.5	(0.7)	0.6	(0.7)	0.5	(0.8)	0.6	(0.9)
Clothing	0.1	(0.3)	0.1	(0.3)	0.1	(0.4)	0.1	(0.4)	0.1	(0.5)	0.1	(0.5)	0.2	(0.6)
Paper and manufactures	0.3	(0.8)	0.3	(0.8)	0.3	(0.8)	0.3	(0.8)	0.4	(0.8)	0.4	(0.9)	0.4	(1.0)
Iron and steel products	0.6	(0.4)	0.5	(0.3)	0.5	(0.5)	0.5	(0.6)	0.7	(0.7)	0.6	(1.1)	0.5	(1.2)
Nonferrous metals	0.5	(0.8)	0.4	(0.8)	0.4	(0.9)	0.4	(0.9)	0.5	(1.0)	0.5	(1.2)	0.6	(1.5)
Mineral fuels	0.8	(1.6)	0.8	(1.7)	0.8	(1.9)	1.0	(1.9)	1.0	(2.0)	0.9	(2.2)	1.0	(2.3)

* Exports exceed imports according to recent performance.
† Imports exceed exports according to recent performance.
‡ Details may not add to totals because of rounding.

Source: U. S. Department of Commerce

the United States had a favorable trade balance, the surplus was maintained even during the 1965-1966 period of excess demand; in those areas where the export-import relationship was unfavorable to the United States, the situation tended to worsen. Second, the acceleration of imports in 1965 and 1966 (especially machinery, food and live animals, crude materials, and nonferrous metals) appears to have been in response to peak demand conditions in the United States; and thus, may reflect cyclical phenomena rather than a deterioration in the United States position in world trade. On the other hand, the adverse developments in the case of iron and steel products implies some loss in the competitive position of the United States in world markets. If this is actually the case, the situation could represent a continuing drag on the merchandise trade balance.

Composition and Geography. The composition and geographic aspects of United States merchandise trade during 1961-1966 are presented in Table III, which shows imports of selected commodities by origin and exports by destination.

The United States trade balance in *food and live animals* shifted to surplus in 1963, reflecting an appreciable increase in exports to Asia; the surplus in this category later

TABLE III

United States Exports and Imports by Major World Areas

Selected Commodities

1961-1966

(billions of dollars)

	Exports (Imports)											
	1961		1962		1963		1964		1965		1966	
Food and live animals*	$3.0	($3.0)	$3.2	($3.2)	$3.7	($3.4)	$4.1	($3.5)	$4.0	($3.5)	$4.6	($3.9)
Canada	0.4	(0.3)	0.4	(0.3)	0.4	(0.3)	0.4	(0.3)	0.4	(0.3)	0.5	(0.4)
Latin America	0.4	(1.5)	0.3	(1.7)	0.3	(1.6)	0.4	(1.6)	0.3	(1.6)	0.4	(1.8)
Western Europe	1.2	(0.3)	1.3	(0.4)	1.3	(0.3)	1.3	(0.3)	1.5	(0.4)	1.7	(0.5)
Asia	0.6	(0.4)	0.7	(0.4)	1.2	(0.5)	1.4	(0.5)	1.4	(0.5)	1.5	(0.5)
Africa	0.2	(0.3)	0.2	(0.3)	0.1	(0.3)	0.1	(0.4)	0.2	(0.4)	0.3	(0.4)
Crude materials*	2.8	(2.5)	2.2	(2.7)	2.5	(2.7)	3.0	(2.8)	2.9	(3.0)	3.1	(3.3)
Canada	0.3	(0.9)	0.3	(1.0)	0.4	(1.1)	0.4	(1.2)	0.4	(1.2)	0.4	(1.3)
Latin America	0.1	(0.4)	0.1	(0.4)	0.1	(0.4)	0.2	(0.4)	0.2	(0.5)	0.2	(0.5)
Western Europe	1.1	(0.3)	0.9	(0.3)	0.9	(0.3)	1.2	(0.3)	1.2	(0.3)	1.2	(0.4)
Asia	1.1	(0.4)	0.7	(0.4)	0.9	(0.4)	1.0	(0.4)	0.9	(0.4)	1.1	(0.4)
Africa	‡	(0.2)	‡	(0.2)	‡	(0.2)	‡	(0.2)	0.1	(0.3)	‡	(0.3)
Machinery*	4.5†	(0.8)	4.9†	(1.0)	5.1†	(1.1)	6.0†	(1.3)	6.9	(1.8)	7.7	(2.7)
Canada	1.0	(0.1)	1.1	(0.2)	1.2	(0.3)	1.4	(0.3)	1.8	(0.4)	2.2	(0.7)
Latin America	1.1	(‡)	1.0	(‡)	0.9	(‡)	1.0	(‡)	1.2	(‡)	1.2	(‡)
Western Europe	1.3	(0.5)	1.4	(0.5)	1.6	(0.5)	1.8	(0.6)	2.1	(0.8)	2.3	(1.2)
Asia (Japan)	0.8	(0.2)	0.9	(0.2)	1.0	(0.2)	1.1	(0.3)	1.1	(0.5)	1.2	(0.7)
Motor vehicles and parts*	1.5†	(0.4)	1.5†	(0.6)	1.3†	(0.6)	1.5†	(0.8)	1.7	(1.0)	2.2	(1.8)
Canada	0.4	(‡)	0.5	(‡)	0.5	(‡)	0.6	(0.1)	0.7	(0.2)	1.1	(0.7)
Latin America	0.7	(‡)	0.6	(‡)	0.4	(‡)	0.4	(‡)	0.4	(‡)	0.4	(‡)
Western Europe	0.1	(0.4)	‡	(0.6)	0.1	(0.6)	0.2	(0.7)	0.2	(0.7)	0.2	(1.0)
Asia (Japan)	0.2	(‡)	0.2	(‡)	0.2	(‡)	0.2	(‡)	0.2	(0.1)	0.2	(0.2)
Nonferrous metals*	0.4	(0.8)	0.4	(0.9)	0.4	(0.9)	0.5	(1.0)	0.5	(1.2)	0.6	(1.5)
Canada	‡	(0.3)	‡	(0.3)	0.1	(0.3)	0.1	(0.4)	0.1	(0.4)	0.1	(0.5)
Latin America	‡	(0.2)	‡	(0.2)	‡	(0.2)	‡	(0.3)	0.1	(0.2)	0.1	(0.4)
Western Europe	0.3	(0.2)	0.2	(0.2)	0.2	(0.2)	0.3	(0.2)	0.3	(0.3)	0.3	(0.4)
Asia	0.1	(0.1)	0.1	(0.1)	0.1	(0.1)	0.1	(0.1)	0.1	(0.2)	0.1	(0.2)
Iron and steel products*	0.5	(0.3)	0.5	(0.5)	0.5	(0.6)	0.7	(0.7)	0.6	(1.1)	0.5	(1.2)
Canada	0.1	(‡)	0.1	(0.1)	0.1	(0.1)	0.2	(0.1)	0.2	(0.1)	0.2	(0.1)
Western Europe	0.1	(0.3)	0.1	(0.3)	0.1	(0.3)	0.1	(0.3)	0.1	(0.6)	0.1	(0.5)
Asia (Japan)	0.1	(0.1)	0.2	(0.1)	0.2	(0.2)	0.2	(0.3)	0.2	(0.5)	0.1	(0.5)

* Details may not add to totals because some areas are omitted.

† Data not comparable to 1965 and 1966 figures.

‡ Less than $500 million.

Source: U. S. Department of Commerce

widened further in line with expansion of exports to Western Europe. On the other hand, the United States deficit with Latin America widened slightly over the 1961-1966 period. The United States trade position in *crude materials* fluctuated within a narrow plus and minus range during 1961-1966. A major development in this category was the fact that United States imports from Canada grew much faster than exports.

The *machinery* grouping, the largest United States trade surplus category, widened from $3.7 billion in 1961 to $5.0 billion in 1966. The widening occurred despite a sharp growth in imports, particularly in 1965 and 1966. Canada, as the major supplier of machinery to the United States, also accounted for most of the increase in imports during the period under review. The bulk of increased United States machinery exports went to Canada and the United Kingdom — the largest United States customers. While the United States trade surplus in machinery widened with both Canada and Western Europe during 1961-1966, the amount of surplus with Latin America remained second to that of Canada.

A sharp increase in imports from Western Europe coupled with a decline in exports to Latin America drastically reduced the United States trade surplus in *motor vehicles and parts* during 1961-1966. The surplus with Canada remained virtually unchanged despite expanded imports of autos in 1965 and 1966 (exports also jumped). Increased imports from Japan in 1965 and 1966 eliminated the small United States trade surplus with Asia in this category.

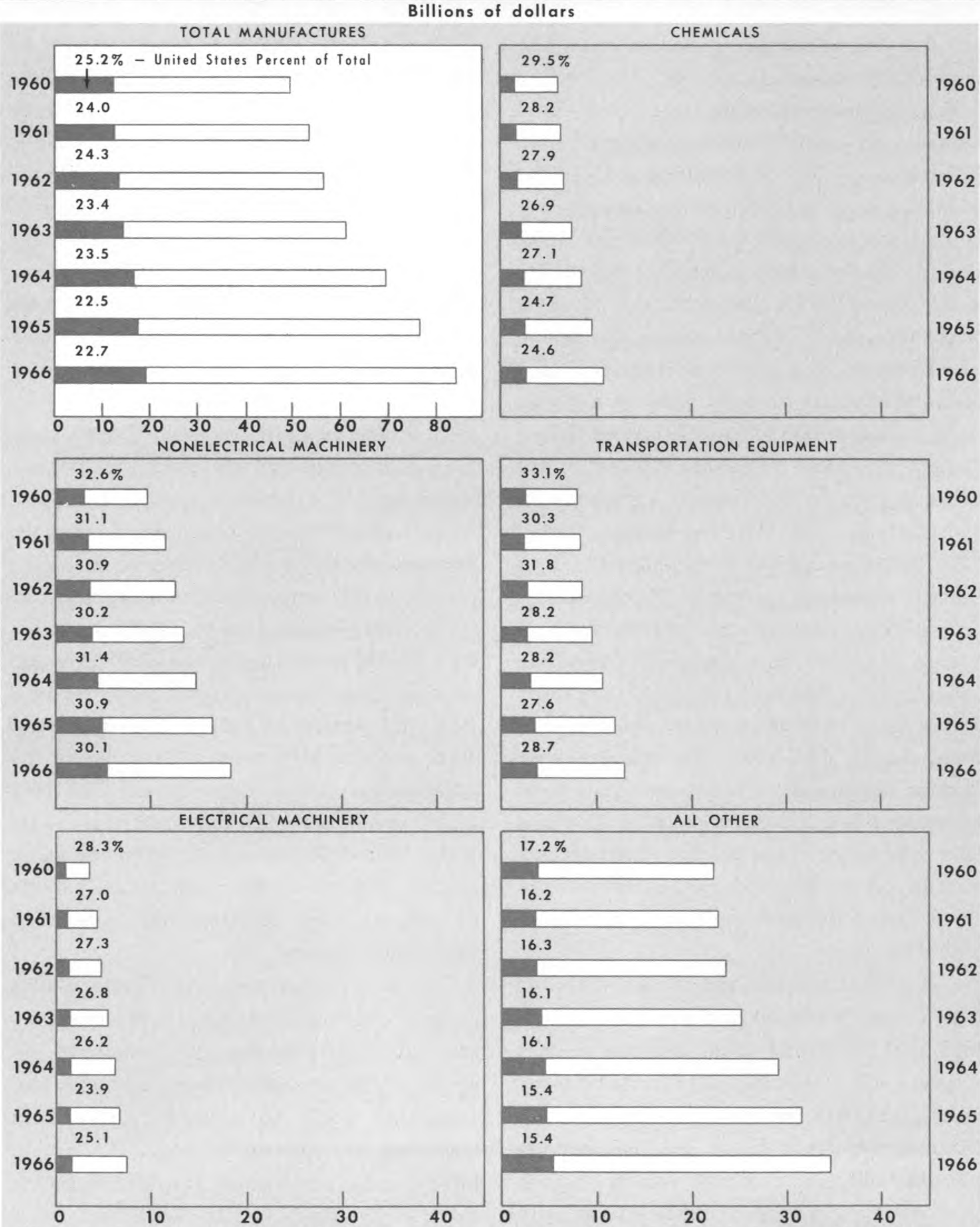
The aforementioned sharp rise in United States imports of *iron and steel products* in 1965, and the further slight increase in 1966, caused a marked swing in the trade balance. In 1962 and 1964, imports and exports of steel products were in balance; by 1966, imports were $0.7 billion in excess of exports. Imports from Japan and Western Europe rose sharply in 1965, whereas United States exports to these areas were practically unchanged.

United States Share of World Exports of Manufactured Goods. As mentioned earlier, some of the narrowing of the overall trade surplus in 1965 and 1966 can be attributed to the influence of excess demand in the United States, at least insofar as imports are concerned. Nevertheless, deterioration in the trade balance is also due to other factors, specifically, changes in the United States share of world export markets. The relationship between United States exports of manufactured goods and world exports is shown in Chart 3. The chart shows the steady year-to-year advance during 1960-1966 in total world exports of manufactured goods, as well as in United States exports. United States exports expanded nearly 53 percent during the period under review; however, exports from the world's 15 major suppliers rose 68 percent. As a result, the United States share of world exports of total manufactured goods declined from 25.2 percent in 1960 to 22.7 percent in 1966, or about 10 percent. In dollar terms, the net loss in market share during 1960-1966 amounted to about $2.0 billion. That is to say, if the United States had achieved the same share in 1966 as in 1960, United States exports of manufactured goods would have been $2.0 billion greater.

The slight improvement in the United States share in 1966 partly reflected a strong expansion in United States imports of manufactured goods which involved drawing off goods that otherwise would have been sold in third countries; in other words, goods that would have been in competition with United States exports. The improved United States share in exports of manufactured goods in 1966 is attributable primarily to a larger volume of

Chart 3.

UNITED STATES SHARE of WORLD EXPORTS of MANUFACTURED GOODS*



* Exports of manufactured goods from 15 major industrial countries that accounted for 78% of world exports in 1965.

Source of data: U.S. Department of Commerce shipments of transportation equipment to Canada — especially automobiles and parts — resulting from the Automotive Products Trade Agreement of 1965. The United States share of world markets for electrical machinery also rose in 1966, following three years of decline (see Chart 3).

It is clear from Chart 3 that the United States is losing ground in several categories of manufactured goods, despite steady annual increases in export shipments. A part of the reduction in the United States share of manufactured goods is due to losses in broad product markets (see Chart 3). However, within the broad groupings, a number of individual items have tended to account for most of the reduction in market share — automobiles (included in Transportation equipment), steel (included in All other), and industrial machinery (included in Nonelectrical machinery). Another reason for the reduction in the United States market share reflects shifts in world trade patterns, especially among countries and regions in which the United States accounts for a disproportionately large share of trade.[2] Continued attrition in the United States share of world exports of manufactured goods would not necessarily be undesirable, however, if it involved sizable absolute increases in United States exports within the context of a more rapidly expanding world trade. Such expansion lies at the heart of tariff negotiations like the Kennedy Round.

THE KENNEDY ROUND

The Kennedy Round was the most comprehensive round of negotiations in terms of the *number* of participating countries, the *value* of world trade involved, and the size of tariff reductions. By 1972, the final stage of tariff reductions under the Kennedy Round, tariffs will be reduced on some 60,000 commodities valued at $40 billion in world trade. The United States negotiated reductions on about 6,300 commodities valued at about $16 billion. Nevertheless, in terms of the ambitious aims originally established by GATT, the results of the negotiations were somewhat less spectacular.[3]

Tariff Reductions. A major goal of the Kennedy Round was a 50-percent across-the-board reduction in tariffs on industrial products. However, "exceptions" to such a reduction were authorized by GATT for "reasons of overriding national interest." The principal "exceptions" involved chemicals, steel, aluminum, and pulp and paper. The question of tariff disparities was also linked with the 50-percent goal. The Common Market countries took the position that a 50-percent across-the-board tariff cut would represent

[2] See U.S. Department of Commerce, "United States Share of World Markets for Manufactured Products," by Harry Bodansky and Frances L. Hall (Washington, D.C.: U.S. Government Printing Office, 1964). For discussion on the United States competitive position and its effects on the merchandise trade balance and the balance of payments, see Walter S. Salant *et al.*, *The United States Balance of Payments in 1968* (Washington, D.C.: The Brookings Institution, 1963), pp 63-93, and Bela Balassa, "Recent Developments in the Competitiveness of American Industry and Prospects for the Future," in U.S. Congress, Joint Economic Committee, *Factors Affecting the United States Balance of Payments*, 87th Congress, 2nd Session, 1962, pp. 29-49.

[3] The major issues and results of the Kennedy Round are shown in the Appendix.

a greater concession than would the same cut by the United States, because United States duties on industrial products are higher than those levied by the Common Market. The United States position was that disparities in tariffs are only important when they have an adverse effect on trade. Because of the "exceptions" and trade disparity issues, Kennedy Round negotiators agreed to tariff cuts on industrial products that averaged about 35 percent.

Nontariff Barriers. Another major aim of the Kennedy Round was to resolve the problem of nontariff barriers. These barriers are complex and usually prove more difficult to eliminate than tariffs.[4] Nontariff barriers include quotas, import equalization taxes, road taxes, laws giving preferential treatment to domestic suppliers, administration of antidumping measures, exchange controls, and a variety of "invisible" tariffs that impede trade. Full benefits from tariff reductions cannot be realized unless nontariff barriers to trade are removed or at least minimized. Foreign nations sought elimination by the United States of the American Selling Price[5] system for evaluation of certain chemical products, as well as revision of American antidumping procedures. The objective of United States negotiators involved reduction or elimination of European road taxes, quotas on United States coal, and discriminatory buying practices of several foreign governments.

With respect to nontariff barriers, results of the Kennedy Round appear to be modest. France, Italy, and Belgium agreed to eliminate road taxes on large-horsepower United States automobiles; the United Kingdom modified regulations on unmanufactured tobacco and eliminated restrictions on fresh grapefruit; and Canada withdrew certain restrictions on imports of fresh fruits and vegetables.

The principal accomplishment of the Kennedy Round in the area of nontariff barriers was adoption of an antidumping code. Dumping under the United States code occurs when either the purchase price of imported merchandise or the exporter's selling price is less than the foreign market value. The principal foreign complaint against the United States code concerned the withholding of appraisal of shipments of imported goods until completion of investigations, including the time involved in investigations. The new code agreed upon in the Kennedy Round specifies that dumping is a "principal" cause of injury to a domestic industry, and such injury must be done to an entire industry before remedial action can be taken. Official spokesmen have indicated that the United States code is consistent with the new GATT code, but a number of United States legislators have suggested that amendments to the existing code may be required.

Agricultural Concessions. Negotiations on agricultural trade in the Kennedy Round were complicated by the EEC's common agricultural policy (common prices and price support programs) that imposes levies and non-

[4] See Mark S. Massel, *Nontariff Barriers as an Obstacle to World Trade*, (Washington, D.C.: The Brookings Institution, 1965).

[5] The United States practice is to base duties on imports of chemical products on the American Selling Price rather than on export prices, which is the normal method of valuation for virtually all other United States imports.

tariff barriers on imports from outside the EEC. The Common Market is the most important market for United States farm products, amounting to about $1.5 billion last year. In the Kennedy Round, the United States position was that there could be no overall agreement unless the EEC made some concessions in agricultural products. In fact, United States negotiators attempted to obtain the same across-the-board tariff reduction of 50 percent on agricultural products as on industrial products. As it turned out, the reduction in agricultural tariffs amounted to considerably less than the average 35-percent reduction on industrial goods. Moreover, no progress was made in eliminating the levy system protecting EEC markets for local producers. However, there was agreement on a minimum world price for wheat, as well as a 25-percent cut in EEC tariffs on fruits, vegetables, juices, and tobacco. Perhaps most significantly, a food-aid plan was approved that will provide 4.5 million tons of grains to less-developed nations, with the United States supplying about 2 million tons. On the whole, agricultural concessions gained from the Kennedy Round appear to have fallen short of United States objectives.

Concessions to Less-Developed Countries. Growth prospects in more than 100 developing countries depend largely on the speed with which export earnings can be increased. If recent history is any criterion, the fact that the less-developed countries (LDC) have experienced a steadily declining share of world trade suggests that prospects for those nations are not bright.

Developing nations had hoped that the Kennedy Round would provide preferential treatment, reductions of trade barriers without reciprocity, and immediate application of tariff cuts rather than the adopted five-year span. While results were short of expectations, there was agreement to reduce trade barriers to LDC without reciprocity. About one-third of tropical product exports and 19 percent of agricultural exports to the major industrial nations will be duty free, compared with 13 percent and 11 percent, respectively, prior to the Kennedy Round. Duties of less than 10 percent will apply to 62 percent of all manufactured goods (32 percent before the Kennedy Round).

CONCLUDING COMMENTS

The Kennedy Round of trade negotiations represents a high point in the liberalization of United States trade policy that began in the early 1930's. At the time of the Reciprocal Trade Agreements Act of 1934, United States tariffs on dutiable imports averaged about 47 percent; at the end of the Dillon Round in 1962, tariffs averaged 11 percent; by the final stage of the Kennedy Round in 1972, tariffs will average about 5 percent. While only a part of the tariff reductions since 1934 were accomplished by trade agreements, the latter did contribute importantly to minimizing this type of barrier to trade. Tariff reductions resulting from the Kennedy Round are from a relatively low level and actually will represent a smaller absolute cut than those experienced under the negotiations of the reciprocal trade agreements program. With average tariffs for the United States and other major trading countries now at a low level, particularly on industrial products, future trade negotiations are likely to center on nontariff barriers, which are frequently used by countries to prevent imports that might otherwise result from tariff reductions.

Because trade is obviously the product of more factors than tariffs, the overall effects of tariff reductions on world trade and especially on American imports are difficult to assess. Duties may only amount to a small part of the total price of a commodity, particularly if subjected to successive rounds of tariff reductions.

Results of previous rounds of negotiation are inconclusive when an attempt is made to isolate the effects of tariff cuts on trade. For example, tariff cuts following the Torquay Round in 1951 did not result in a significant rise in the volume of United States imports, whereas following the Geneva Round in 1956, imports of goods subject to reduction expanded somewhat more rapidly than did the imports of nonreduced goods. Tariff reductions in the Dillon Round also apparently resulted in some increase in trade.[6]

In any event, the ultimate objectives of tariff reduction are clear: to allow each country to specialize in those commodities or products in which it has the greatest comparative advantage, and to exchange output with other countries enjoying a comparative advantage in other goods. Ideally, such an interrelationship helps to maximize a country's output and real income, as well as world output and income. If tariffs are used to obstruct trade, income of trading nations is likely to be affected adversely.

Tariff reductions admittedly result in problems and dislocations for affected domestic producers. Recognition of this is clear in the Kennedy Round agreements, which stretch tariff reductions over a five-year span. The actual impact on American industry as a result of the agreements of the Kennedy Round will depend on several factors — the extent of individual tariff reductions, the economic status of the affected industries, and individual industry responses to intensified competition.

Nevertheless, some implications may be suggested. The effects of tariff reductions are likely to be greatest on industries in which productivity is low. If such industries are presently dependent upon a protective tariff, reductions in tariffs could be damaging. In addition, products and industries that have a high labor input relative to capital could be seriously affected by tariff reductions. In either case, however, the possible short-run costs of dislocation in affected industries will have to be evaluated in light of long-run gains to consumers and business that result from an improved allocation of productive resources. It should be recognized that competitive adjustments made necessary by the removal of foreign trade barriers are not unlike the types of adjustments needed to meet domestic competition.

[6] See Lawrence B. Krause, "United States Imports and the Tariff," *American Economic Review*, XLIX (May, 1959), pp. 542-551; Mordechai E. Kreinin, "Effects of Tariff Changes on the Prices and Volume of Imports," *American Economic Review*, LI (June, 1961), pp. 310-324; and Arthur H. Small, "The Effect of Tariff Reductions on United States Import Volume," *MSU Business Topics*, 15 (Spring 1967), pp. 43-53.

APPENDIX

KENNEDY ROUND: Issues and Results

TARIFF REDUCTIONS

Average reduction in tariff rates for industrial products — 35 percent

EXCEPTIONS LIST

Steel, aluminum, chemicals

LIBERALIZATION OF NONTARIFF BARRIERS

Common antidumping code

Elimination of road use taxes in France, Italy, Belgium, and Austria

Elimination of restrictions on fresh grapefruit and reduction in restrictions on unmanufactured tobacco in United Kingdom

Elimination of restrictions on fresh fruits and vegetables in Canada

Elimination of United States System (American Selling Price) for valuation of certain chemicals (conditional)

AGRICULTURAL CONCESSIONS

Food-aid plan for less-developed countries

Minimum world price for winter wheat

Tariff reductions on broad range of products, including soybeans, tallow, tobacco, poultry, horticultural products, juices, nuts, and raisins

TRADE CONCESSIONS TO LESS-DEVELOPED COUNTRIES

Reductions in tariff rates on tropical, agricultural, and industrial products

Sources: General Agreement on Trade and Tariffs and U.S. Department of Commerce

A NOTE ON BANK DEPOSITS AND BANK CREDIT IN 1965-1967

Monetary policy and financial conditions changed markedly during the period from mid-1965 to mid-1967, first tightening appreciably, and then, beginning in the late fall of 1966, easing considerably. The change in monetary policy and financial conditions influenced different types of financial institutions in different ways. Since the thrust of changes in monetary policy and financial conditions is transmitted initially through commercial banks, it may be revealing to examine some of the responses of selected categories of banks during the period under review. These categories are: (1) all commercial banks; (2) all member banks of the Federal Reserve System; (3) country member banks; and (4) nonmember banks.

The behavior of bank deposits and bank credit of the entire commercial banking system, as well as of the banks directly subject to the influence of the Federal Reserve System, can be analyzed by use of these four categories. Although a majority of commercial banks do not belong to the Federal Reserve System, member banks account for over four-fifths of commercial bank deposits and bank credit. As a consequence, the behavior of deposits and credit at member banks is largely responsible for changes in total deposits and credit at all commercial banks.

Use of the above categories also permits an analysis to be made of the behavior of bank deposits and bank credit at nonmember banks and country member banks. Because both categories mainly include small banks, this should provide some insight into the response of small banks to changes in monetary policy and financial conditions, as well as an indication of the performance of small member banks of the Federal Reserve System compared with nonmember banks.[1]

The data used in this article are estimates of total deposits and loans and investments as of the last Wednesday of each month. Since deposit and bank credit estimates are not available in seasonally adjusted form for

[1] As of December 31, 1966, there were 13,770 commercial banks in the United States. Nonmember banks numbered 7,620 or 55.3 percent of the total. Total deposits of all commercial banks were $352.3 billion as of December 31, 1966, while total loans and investments (bank credit) were $322.7 billion. Nonmember banks held 17.4 percent of all commercial bank deposits, and 18.3 percent of all commercial bank loans and investments.

some categories of banks, unadjusted data are used for the four classes of banks. Year-to-year rates of increase (for example, deposits in January 1965 as a percent of deposits in January 1964) are used to represent changes in deposits and bank credit. (See Charts 1 and 2.) Although the data are only one-day figures, and fail to provide any indication of the composition of deposits or bank credit, they do portray the broad patterns of bank deposit and credit behavior. And, in general terms, it is clear from the charts that all categories of banks showed generally similar contours of behavior in the period under review. Nevertheless, there were some interesting individual variations.

DEPOSIT BEHAVIOR

One variation is that nonmember and country member banks (the smaller banks) showed somewhat larger increases in deposits in the period under review than did the all member bank and all commercial bank categories. Since rates of increase for all member banks and for all commercial banks can be considered as weighted averages of the increases of the component banks, this indicates that the larger banks, which are generally members of the Federal Reserve System, did not grow as rapidly as the smaller banks.

Nevertheless, similar patterns of deposit behavior have by and large persisted since

Chart 1.

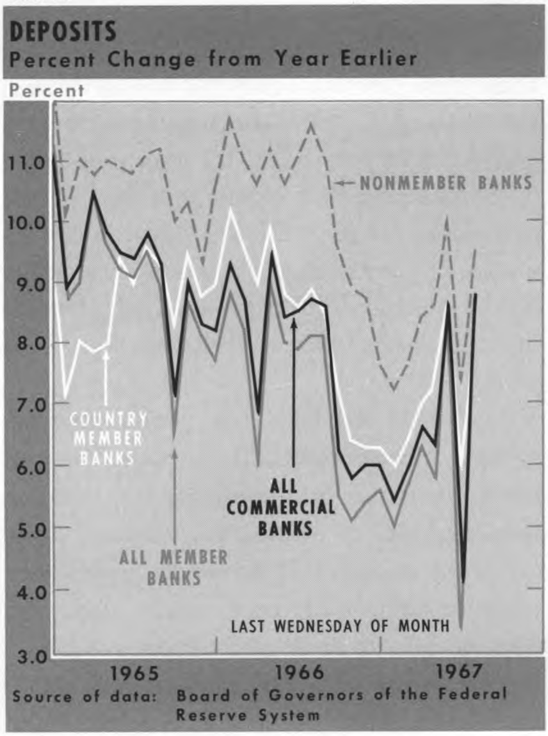
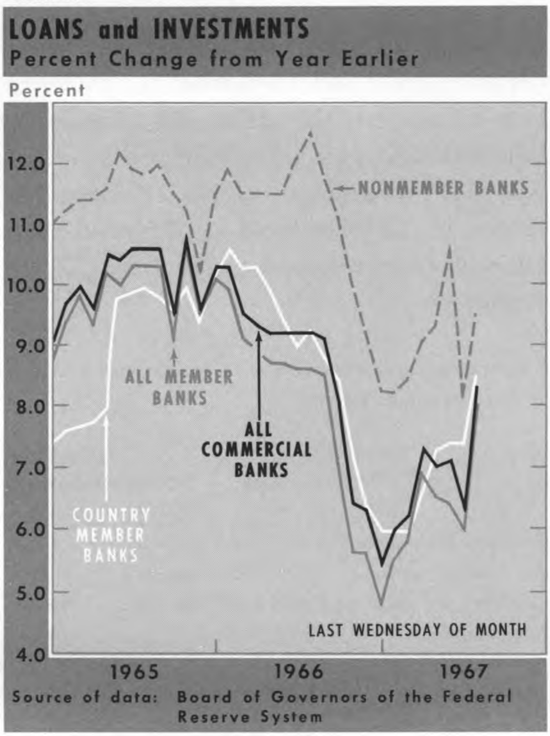


Chart 2.



mid-1965 for all four categories of banks (see Chart 1). Year-to-year rates of increase fluctuated in a range that, with minor exceptions, remained relatively stable through most of 1965 and early 1966. As shown in Chart 1, the effects of monetary restraint did not become apparent until the second quarter of 1966. As a general matter, year-to-year increases in deposits began to diminish after April 1966, specifically for all commercial banks, all member banks, and country member banks. Year-to-year growth at nonmember banks, however, did not noticeably slow down until after July 1966. Once the growth rate of nonmember bank deposits did slacken, the slowdown was greater than for the other classes of banks. The magnitude of the overall slowdown in year-to-year increases was roughly similar at the other classes of banks. From peak increases in April 1966, through low increases in January 1967, year-to-year deposit growth fell 4.0 percentage points at both all commercial banks and all member banks; at country member banks, the decline was 3.9 percentage points. Nonmember banks, on the other hand, experienced a decline of 4.4 percentage points from July to January.[2]

[2] The percentage point declines in year-to-year increases in deposits are as follows:

	Peak Month	Trough Month	Decline in Percentage Points
All commercial banks	Apr. 1966	Jan. 1967	4.0
All member banks	Apr. 1966	Jan. 1967	4.0
Country member banks	Apr. 1966	Jan. 1967	3.9
Nonmember banks	July 1966	Jan. 1967	4.4

NOTE: Peak and trough months were determined by inspection.

Year-to-year rates of increase in deposits, after reaching lows in January 1967, accelerated in February and reached a high in May. This was followed by a sharp but temporary decline in June and a rebound in July. Year-to-year increases thus far in 1967 have generally been more moderate than those that occurred in 1965 and early 1966.

BANK CREDIT

Year-to-year increases in bank credit (loans and investments) followed a pattern roughly similar to that of deposits. As expected on the basis of deposit behavior, nonmember banks experienced the largest year-to-year increases in loans and investments throughout the entire period under review. All commercial banks exhibited the next highest year-to-year rate of increase during late 1965, while country member banks assumed second position during 1966. The all member bank category exhibited the lowest growth rate throughout the period under review. In general, this pattern for the four categories of banks persisted throughout the period from mid-1965 to mid-1967, although the increase in bank credit at country member banks fell below that at all commercial banks at a number of intervals during the period under review.

Similar to deposits, the year-to-year increases in bank credit at the various classes of banks fluctuated in a relatively stable range from mid-1965 to early 1966, although bank credit growth reflected the effects of monetary restraint somewhat more rapidly than did deposit growth. Bank credit increases began to recede in January 1966 at all member banks and in February at all commercial banks.

Country member banks did not begin to experience a sustained reduction in year-to-year increases in bank credit until April, while for nonmember banks the slowdown did not occur until August 1966. Once the smaller increases set in, the slowdown was much sharper for nonmember banks. Year-to-year increases at all classes of banks reached a trough in December 1966.

The reductions in year-to-year increases in bank credit were slightly greater than the reductions in deposit increases.[3] All member banks experienced the largest decline, followed by all commercial banks, and then by country member banks. Nonmember banks experienced the smallest decline in terms of percentage points, but the decline occurred over a much shorter time span.[4]

Following the change in monetary policy in November, bank credit growth accelerated from the December 1966 low; by midyear 1967, year-to-year rates of increase had not regained the magnitudes achieved in 1965 and early 1966.

CONCLUDING COMMENTS

Because the aggregates considered here are necessarily broad in coverage and may conceal a number of important factors in the behavior of deposits and bank credit, any conclusions should be considered tentative. Nevertheless, a number of general observations seem plausible.

For one thing, monetary restraint in 1966, as evidenced by lower rates of deposit and credit growth, was transmitted to all four categories of banks under consideration. Restraint was reflected at different classes of banks at different times, particularly with respect to bank credit. Smaller year-to-year increases in bank credit occurred first at the larger member banks and then at country member banks. The effects of restraint on nonmember bank credit growth did not show up until some time after the impact on member banks (approximately six months). In addition, as implied by the data in footnote 4, the larger banks showed a greater decline in year-to-year increases than smaller banks, indicating that the effect of restraint was greater for large banks.

In the case of deposits, the effects of restraint were not readily apparent until several months after the effects on bank credit, although the effects on deposit growth were more uniform. Larger member banks and smaller country member banks seemed to experience similar patterns of deposit behavior. Nonmember banks, however, did not show the effect of restraint until several

[3] This phenomenon reflects such factors as changes in composition of deposits, changes in location of deposits and the influence of different reserve requirements, changes in the level of excess reserves in the banking system, among others.

[4] The percentage point declines in year-to-year increases in bank credit are as follows:

	Peak Month	Trough Month	Decline in Percentage Points
All commercial banks	Dec. 1965	Dec. 1966	4.9
All member banks	Dec. 1965	Dec. 1966	5.3
Country member banks	Jan. 1966	Dec. 1966	4.6
Nonmember banks	July 1966	Dec. 1966	4.2

NOTE: Peak and trough months were determined by inspection.

months after the effects were apparent in member bank and country member bank deposit behavior.

The magnitude of the effect of restraint, as measured by the reduction in growth rates of deposits, was roughly similar for all four classes of banks, with the exception of nonmember banks. Thus, although nonmember banks apparently responded less rapidly to conditions of restraint, the reaction was of a somewhat larger magnitude once it did occur.

All four categories of banks responded promptly to the change in monetary policy that occurred in November 1966. In the early months of 1967, however, the rate of bank credit growth at all member banks, taken as a group, lagged credit growth at the other categories of banks; nonmember banks continued to set the pace with the largest rates of increase in bank credit.

Fourth Federal Reserve District