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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Perspectives on Trade and International Payments Executive Summary

GAO discusses many of the key issues related to improving the U.S. balance of trade and international payments. This summary raises questions that need to be addressed in developing a coordinated and balanced approach to U.S. problems now and over the longer term.

UNITED STATES GENERAL ACCOUNTING OFFICE

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WASHINGTON, D.C. 20548

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To the President of the Senate and the
Speaker of the House of Representatives

This is our Executive Summary on Perspectives on Trade and International Payments.

The Summary discusses many of the key issues which we believe the Congress will need to address in the development and implementation of policies designed to improve the U.S. balance of trade and international payments. In our view, there is an urgent need for congressional attention to the issues discussed in our Summary.

Copies of this Summary are being sent to the Director, Office of Management and Budget; the Special Representative for Trade Negotations; and the heads of executive agencies involved in international trade and payments matters.

Copies of our detailed report are available upon request.

Comptroller General
of the United States

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PERSPECTIVES ON TRADE AND INTERNATIONAL PAYMENTS

INTRODUCTION

The United States is at a crossroads in formulating foreign economic policy. Congress in 1979 faces the task of completing work on the results of the Multilateral Trade Negotiations plus other important trade legislation. The 96th Congress will be noteworthy for the policy attention it accords the U.S. trade and payments condition.

In retrospect, the United States in 1978 experienced the worst deficits in its history--roughly $34 billion in merchandise trade and $16 billion in its current account. The dollar sharply depreciated in foreign exchange markets. Imports expanded while exports grew slowly. U.S. worker productivity gains languished at 50 percent of past rates. Foreign-government owned or directed enterprises--committed to sustaining high domestic employment levels and increasing shares of export markets--increased competitive pressures for U.S. firms. Developing countries eroded traditional U.S. market shares of the industrialized world's manufactures.

Concern about U.S. trade and payments problems was manifested in domestic and international reactions. A depreciated dollar contributed to domestic inflation by such means as higher prices for imports. Increased imports escalated adjustment assistance petitions for affected firms and workers, and claims of unfair foreign trade practices became more numerous. The Federal Reserve intervened in the foreign exchange markets to support the dollar. More consideration was given to protectionist measures to combat imports, while higher energy and regulatory costs further endangered U.S. price competitiveness and influenced domestic investment decisions.

Internationally, the United States encouraged other countries to increase their economic growth rates so as to provide markets for U.S. products. However, the growth of foreign economies was restrained, due in part perhaps to the decline of the U.S. dollar. The stability of the dollar as the world's major trade, reserve, and investment asset was questioned.

HOW ABOUT THE FUTURE?

The experiences of 1978's large merchandise trade and current account deficits seem certain to be repeated. Administration sources project only modest improvement in

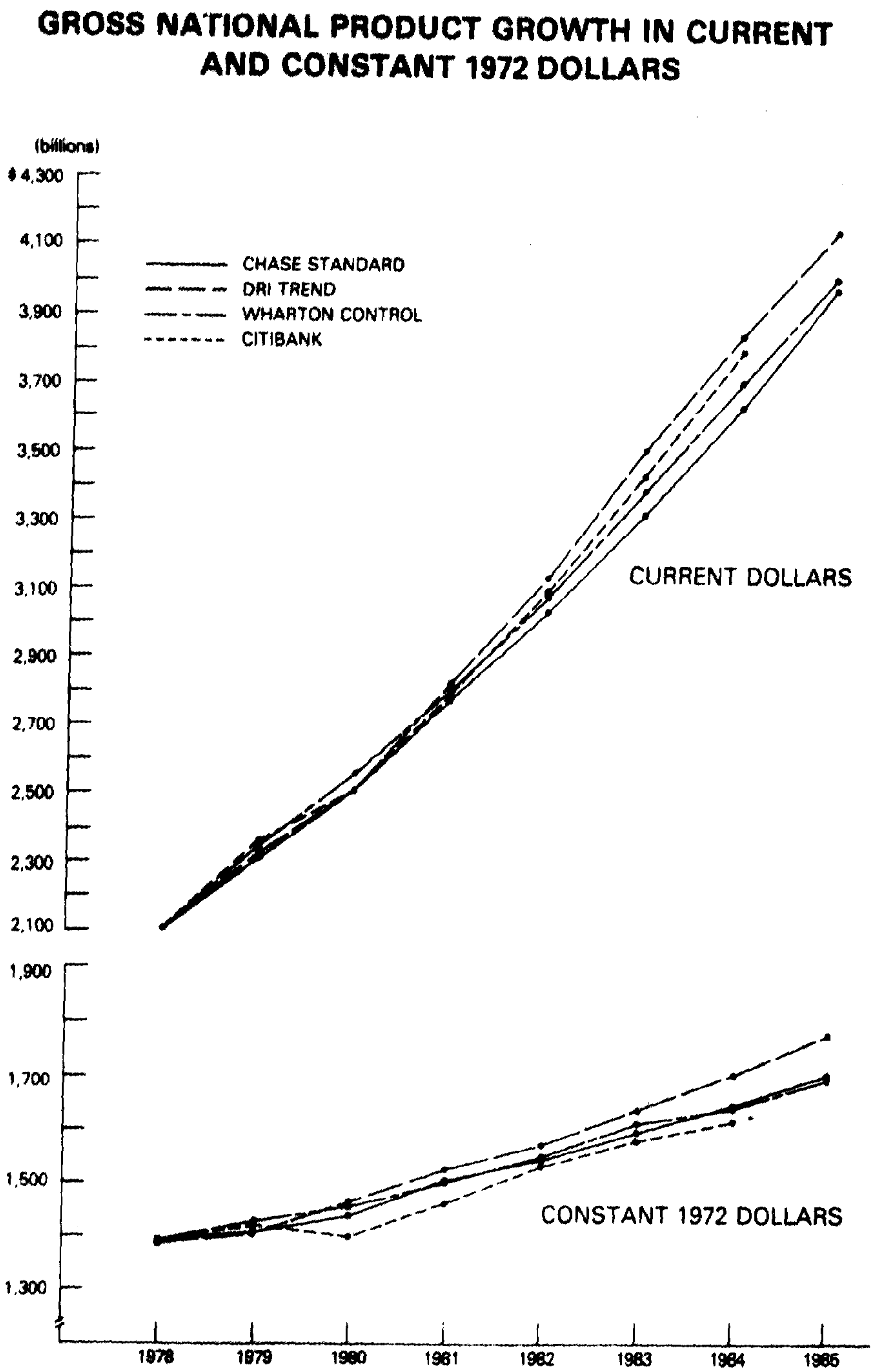
1979 for the U.S. trade and payments picture. This improvement, which Government officials had earlier indicated would be forthcoming because of increased price competitiveness and a depreciated dollar, began to show up in the first quarter of 1979. The U.S. merchandise trade balance deficit of $6.1 billion in that quarter compared to deficits of $6.4 billion and $11.9 billion in the fourth and first quarters of 1978, respectively. The current account balance for the first quarter of 1979 also improved, recording a surplus of $0.16 billion--the first surplus since the fourth quarter of 1976 according to Commerce. Overall, Treasury expects exports to increase, but imports will also increase, possibly offsetting gains from an improved export performance. Uncertainty about the real impacts of continued energy price increases and the direction of U.S. energy policy makes any estimate of import costs precarious.

The Council of Economic Advisers reports that the world economy in 1979 will maintain the low growth rate of 1978, suggesting that the desired industrial expansion in other countries may not materialize to provide markets for U.S. products. The U.S. Chamber of Commerce reports that world exports of goods and services up to 1982 are expected to increase at an annual average rate of 13 percent, compared with an anticipated increase for the United States of no more than 9 percent.

In an effort to gain some insight into the future of the U.S. trade position through 1985, we examined four prominent economic forecasts--Data Resource's "U.S. Long-term Review" (Winter 1979), Chase Econometric's "Macroeconomic Forecasts, 1979" (February 1979), Wharton Econometric's "Annual Model, Pre-meeting Solutions" (March 27, 1979), and Citibank's "The U.S. Economy 1979-84" (April 1979). These forecasts are not strictly comparable because each predicates its views on somewhat differing assumptions and there is a range of error associated with any econometric forecast. Nevertheless, at this point in time, they are reasonable projections of future conditions. The following observations and trends emerge from the forecasts.

1. The U.S. gross national product in current dollars will rise at an average annual rate of about 11.5 percent to around $4.0 trillion in 1985, but, as graph 1 shows, in constant 1972 dollars it will increase at an average annual rate of about 2.9 percent to only $1.7 trillion.

Graph 1


GROSS NATIONAL PRODUCT GROWTH IN CURRENT AND CONSTANT 1972 DOLLARS
(billions)
$4,300
4,100
3,900
3,700
3,500
3,300
3,100
2,900
2,700
2,500
2,300
2,100
1,900
1,700
1,500
1,300
CHASE STANDARD
DRI TREND
WHARTON CONTROL
CITIBANK
CURRENT DOLLARS
CONSTANT 1972 DOLLARS
1978
1979
1980
1981
1982
1983
1984
1985

2. U.S. inflation , as measured by the implicit gross national product deflator, will continue. The index rises to almost 240 by 1985 (1972 = 100), although it does so at successively slower rates.

3. Although slower U.S. domestic demand may help to decrease the rate of growth in U.S. imports, other factors, such as small increases in productivity and continuing rapid inflation, will affect U.S. ability to increase exports and to be competitive in its home market.

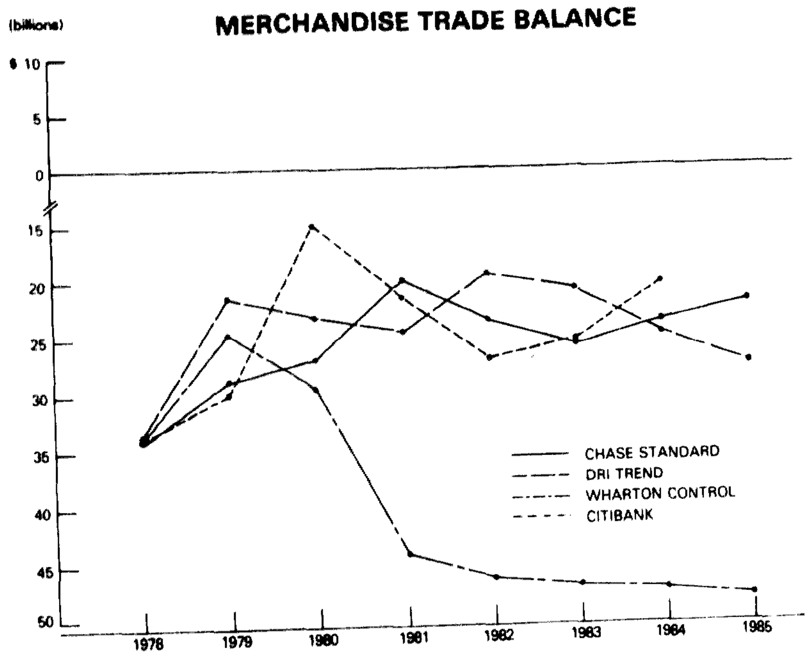
4. Overall, the U.S. merchandise trade and services balance will improve; three of the sources forecast between a $2.5 billion deficit and a $17.2 billion surplus after 1981. The fourth source forecasts a continuing deficit, the largest being $14.5 billion in 1981, a year for which the other three forecast a surplus.

   a. The U.S. merchandise trade balance (see graph 2) will remain in a deficit position, ranging from $15 billion to $48 billion. While export performance will begin to improve, growing at a quicker rate than that of imports, there will be continued large trade deficits.

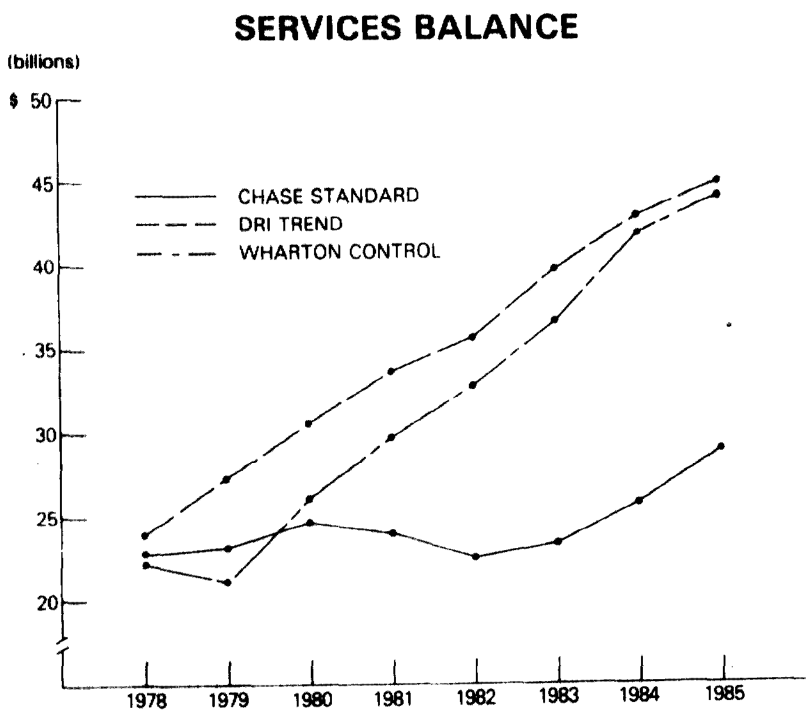
   b. The balance on services (see graph 3) will continue in surplus, ranging from $21 billion to $45 billion. Both imports and exports of services will rise during this period, with imports growing faster than exports, but not enough to reverse the trend of surpluses in the services balance.

5. The dollar exchange rates forecasted until 1981 will fluctuate. Two of the three projections forecast depreciation, the other forecasts slight appreciation. Any improvement in price competitiveness due to depreciation may be mitigated by non-price factors, such as quality and service, or by growing competition from developing countries.

Graph 2



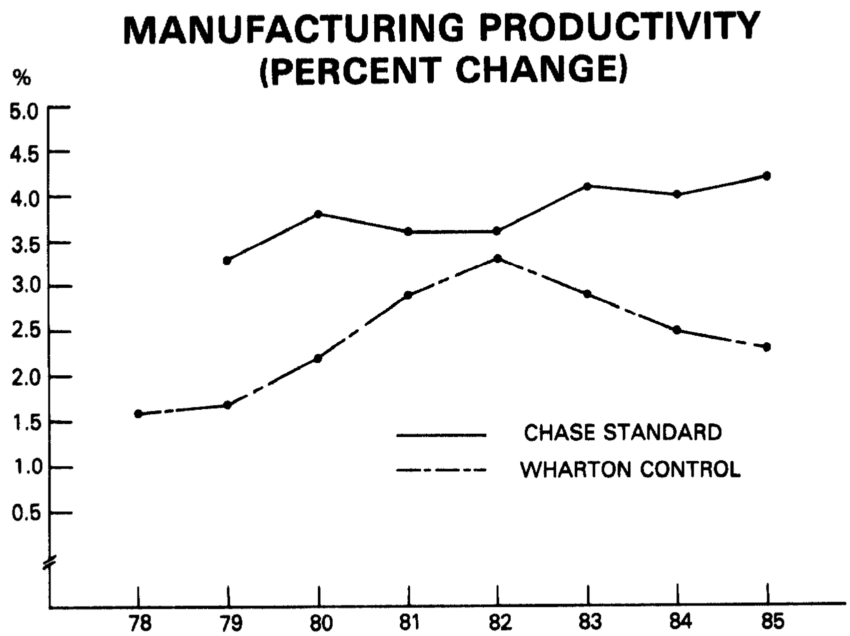
Graph 3



6. U.S. manufacturing productivity is expected to improve only slightly, as shown in graph 4. Thus, potential improved U.S. price competitiveness due to dollar depreciation may not be very helpful overall to the U.S. merchandise trade position.

7. Plant capacity utilization rates will rise after a downturn in 1979. As full capacity levels are approached, per-unit production costs will rise, causing the price of U.S. goods to increase and become less competitive.

Graph 4



WHAT IS NEEDED?

Past U.S. trade and payments deficits have caused sporadic congressional and private concern. This type of attention will not suffice for the problems which are at hand and which are likely to be with us in the future.

Over the years, we have made numerous recommendations to the executive branch and to the Congress for improving the U.S. trade and payments performance. Major recommendations concerned:

--Coordination of long-range international economic policy issues.

--The possible need for legislation to establish a centralized mechanism for developing and coordinating long-term economic policy planning.

--Strategies for guiding U.S. commercial activities in foreign countries. Agriculture, Commerce, and State should develop trade objectives for market development.

--Fragmentation of responsibilities. We asked Congress to consider establishing a joint executive-congressional group to consult on a variety of East-West trade matters.

--Difficulties in the timely processing of export license applications. We suggested that Congress have export license application management responsibilities centralized in Commerce and have a multiagency group established to provide guidance to Commerce to make the system more responsive.

--Imports. We made a series of recommendations to (1) improve administration of the Antidumping Act and (2) provide for a better information base to permit a more comprehensive analysis of the effects of antidumping actions on prices, U.S. trade, and other interests.

--Productivity. We concluded that the United States needs to make manufacturing productivity a national priority in order to remain internationally competitive and to maintain strong industries.

--U.S. technology transfer policies. We recommended a change in the method of accumulating statistics so that the implications of U.S. transfer policies can be better evaluated.

--Foreign investment in U.S. agricultural land. Our work with the Congress resulted in the establishment of the current registration system for alien investment.

We have testified frequently on trade and payments matters, explaining the results of our examinations of Government export promotion and financing, collectability of international accounts, commodity agreements, and export controls. We have expressed the view that international trade is vital to the U.S. economy, noting the great number of jobs associated with it as well as the economic and political benefits of a stable trading environment.

We believe there is wide support in the private sector for Government change in the trade area. This support is borne of a concern that other countries are eroding traditional U.S. markets and that the Government organization seems inadequate for protecting legitimate national and corporate interests.

Numerous papers prepared by Government, business, and labor groups contain recommendations which need to be carefully analyzed in the search for the right approach. We believe, on the basis of our work in the trade area, we can offer useful proposals for consideration in this process.

As a starting point, we believe trade must be placed high enough in the Government's list of priorities to insure the continuing attention it deserves--an established national economic objective with conscious support for attaining agreed upon goals. The U.S. approach to trade will have to be fundamentally altered and a new doctrine created so that a cooperative, rather than an adversary, relationship exists among Government, business, labor, and consumers. The nature and extent of this relationship will have to evolve, but certainly should fall considerably short of the closely integrated planning systems used by Japan and some European countries. A program which effectively balances these constituent interests, domestically and internationally, will then be required to guide activities in this area. A discipline should be encouraged and followed concerning acceptable levels of trade surpluses and deficits so that the sporadic attention given trade matters in past crises will be precluded by a more systematic and orderly examination.

Many interrelated issues and questions will need to be considered in developing such a program. These issues and questions are presented in the following sections and encompass trade policy coherence, organizational adequacy, exchange rates, export control administration, foreign trade barriers, U.S. imports, investment flows, productivity, technology transfers, Government regulations, export promotion, export financing, and the administration of U.S. international collections and payments.

INTERNATIONAL TRADE POLICY

Many observers believe U.S trade policy is neither well articulated nor easily understood; in fact, some question whether the United States has a coherent trade policy at all. The concerns seem to stem from the proliferation of policies on foreign military sales, export controls, anti-trust actions, human rights, and the environment which have been brought to bear on trade relationships and from the difficulty in really understanding how these diverse policies coalesce. From the business point of view, export efforts are hampered by the imposition of these policies. From the Government point of view, there has been no effective coordinating mechanism for reconciling these policies.

We believe the following questions need to be answered.

1. Should responsibility for formulating U.S. international economic and trade policies be specifically mandated to the executive branch?

2. Should acceptable levels of trade and current account surpluses and deficits be established as a guide for policy actions?

3. Should a comprehensive statement of long and short-term trade objectives be prepared which encompasses all major agency trade activities?

4. What kind of strategies and mechanisms are needed to reconcile domestic and international political considerations with the need for increased exports?

ADEQUACY OF GOVERNMENT ORGANIZATION

Government organizational needs are twofold.

1. There is a need for a policy formulation organization capable of developing an international economic policy which effectively integrates domestic and international considerations. This agency should have a strong forecasting capability and a capacity for assessing the impacts of programs, activities, and policies in accord with agreed upon national economic objectives.

2. At the working level, there is a need for an organization to integrate the diverse components of a program responsive to trade and payments concerns.

Since the demise of the Council on International Economic Policy, cabinet-level officers from agencies with inherently conflicting policies have dealt with international economic matters. Even though some administration officials point to the recent Multilateral Trade Negotiations as a good example of how agencies can work together effectively, these groups have not achieved the level of cooperation and coordination that we envision as necessary on a continuing basis. The Departments of State, Commerce, Treasury, Labor, and Agriculture, which are most directly involved in trade and payments matters, as presently constituted seem poorly equipped to carry out the integration of an effective response program. Due to past congressional concern, bills have been introduced, but not passed, to reform the Federal trade bureaucracy. Currently, Congress is considering several similar bills and seems likely to pass some form of a reorganization plan aimed at providing a more coherent and effective Government organization for dealing with trade matters.

We believe the issues to be addressed are:

1. The possible need for a mechanism, similar to the Council on International Economic Policy, responsible for international economic policy formulation and long-range economic forecasting.

2. The need for a separate trade agency, or some modification of this concept, such as an expanded role for Commerce.

ADMINISTRATION OF EXPORT CONTROLS

The delay and uncertainty in administration of export controls and the subtle, negative, long-term effect this has on trade relationships is of far greater significance to U.S. trade interests than actual denials of export licenses.

The diffusion of responsibility among the many agencies and offices within the executive branch is the main obstacle to achieving the necessary balance between the Government's responsibility to control exports for national security, foreign policy, and short-supply reasons and its greater accountability to exporters.

These questions should be examined.

1. How can export licensing procedures be simplified and made more explicit, timely, and easier to comply with?

2. How can responsibility for export licensing decisions be more centralized to develop better accountability?

3. Are U.S. control practices unnecessarily incompatible with those of competitor countries, so that U.S. suppliers are unduly disadvantaged?

EXCHANGE RATES

The exchange rate value of the dollar has fluctuated widely since the advent of floating in 1973. U.S. concerns center around whether a depreciated dollar can bring about desired improvements in U.S. trade performance. Treasury estimates that, over time, the trade deficit will be substantially decreased. Others feel, however, that floating exchange rates should not be relied on completely to redress the U.S. trade imbalance because any inherent advantage could be offset by a variety of non-price factors, such as quality, service, and delivery.

The following questions need to be examined.

1. Can dollar depreciation alone be relied on to significantly improve the trade balance? If not, what additional steps should be taken to affect the improvements sought?

2. Is the dollar unduly vulnerable because it is the principal international reserve currency?

3. If the instability of the dollar is significantly due to its preeminent role, what can, or should, be done to supplement it with other international assets?

REDUCTION OF TRADE BARRIERS

Foreign tariff and non-tariff barriers impede U.S. exports and frustrate U.S. export expansion. Foreign exporters face similar U.S. barriers. The United States must differentiate among developed and developing countries in this regard for various policy reasons but it generally seeks mutual reciprocity in its relationships. The Multilateral Trade Negotiations will, hopefully, mitigate such problems. But, agreements, even if fully implemented, are unlikely to resolve such important trade questions as:

1. What U.S. and international mechanisms will be needed to insure compliance with the outcome of the Negotiations?

2. Are present U.S. organizational arrangements adequate to implement agreements that may emerge from the Negotiations?

3. Under what conditions and circumstances should the United States retain barriers protective of domestic interests?

4. What kinds of information systems are needed to keep the United States abreast of foreign barriers so that U.S. interests can be aggressively pursued on a timely basis?

INCREASED IMPORTS

The United States derives considerable advantages from imports. However, these advantages entail a large dollar outflow and actual domestic job displacement in some cases.

Frequent admonitions that domestic energy consumption must be better managed demonstrate the importance placed on controlling the costs of energy imports. However, petroleum and petroleum products accounted for only about 19 percent of the growth in U.S. imports between 1975-78. Substantial growth was recorded in agricultural products, manufactured goods, and machinery and transportation equipment.

The strength of the U.S. domestic economy is an important factor in the rise of imports, as is the general attractiveness of the U.S. market for manufacturers around the world. Future import levels are expected to continue to increase because the industrialized countries desire to sustain high domestic employment levels, developing countries continue to expand their export trade, and the American consumer continues to demand import products.

The United States has legislation for coping with the rise in foreign imports. However, some legislation concerning unfair foreign competitive practices is costly and ineffective. Trade adjustment assistance programs designed to cope with fair competition have not facilitated change within affected industries or effectively retrained workers in other areas.

These questions should be examined.

1. Are the fundamental reasons for increased imports controllable and, if not, what are their ramifications for (a) domestic productive capacity, (b) continued domestic employment levels, particularly in industries and geographic areas where few realistic alternatives exist, and (c) the balance-of-payments position?

2. How can the adverse effects of imports on import-sensitive industries be minimized, and would the tradeoff economic costs to the consumer warrant such means?

3. Should the United States consciously attempt to protect more industries subject to import competition by quotas, marketing agreements, and surcharges, as other countries do?

4. Are U.S. trade adjustment assistance programs structured to minimize the shock of adjusting to import competition?

5. Should the United States establish "acceptable levels of import growth," such as those for textiles and steel, and monitor performance in order to control import costs?

6. Can the U.S. balance-of-payments position absorb the future cost of refined raw materials, or should available alternatives be explored, such as the development of domestic resources?

7. Are U.S. laws and procedures adequate for dealing with the question of imports, particularly those from centrally planned economies and nationally controlled enterprises?

8. Are U.S. national security interests being sufficiently protected against undue reliance on foreign imports, such as oil and processed minerals?

FOREIGN INVESTMENT

U.S. policies on foreign investment flows have been more liberal and open than those of U.S. industrial allies and of developing countries, whose policies range from complicated restriction to extensive monitoring. This lack of reciprocal national treatment includes such practices by foreign countries as limiting capital flows to the United States and obtaining concessions from U.S. investors that distort the free competitive flow of trade.

Foreign governments, as well as some U.S. States, actively seek investment and offer a variety of incentives. There is concern, both domestically and internationally, as to the level of investment incentives being offered. While the U.S. Government is willing to rely on the dictates of the private market to get its share of international direct investment, many other governments are not so inclined. One problem in determining what the U.S. response should be is the lack of comprehensive information as to the incentives provided to investors.

The growth in foreign investment in the United States has remained largely free of regulation. A 1976 Commerce report pursuant to the Foreign Investment Study Act concluded that there is no reason for concern over foreign direct investments (either stocks or flows) and that existing U.S. laws pertaining directly to foreign investments or to domestic business in general (e.g. antitrust and export controls over natural resources) are sufficient to safeguard U.S. interests against any major problems which could arise.

Nevertheless, there is continuing concern about the effects of foreign investment--e.g., U.S. farms and U.S. banking operations. Information on these types of investments is incomplete and public interest has persisted, even though it represents only a small proportion of total inward investment. Legislation was enacted to increase monitoring of both inward and outward investment, to require registration of foreign ownership of U.S. farmland, and for Federal regulation of participation by foreign interests in banking operations in the United States. This situation poses the following questions.

1. What should the Federal Government do to facilitate State efforts to attract inward foreign investment?

2. How may the Federal Government obtain needed information on the lack of reciprocal national treatment and, if necessary, respond to the adverse impact on the free flow of U.S. trade and investment?

3. What may be done among the States and between the United States and foreign countries to provide for transparency of investment incentives so as to determine whether there is a need for agreements on the limits of incentives offered for investment?

PRODUCTIVITY

Since 1967 U.S. manufacturing productivity gains have slowed to 50 percent of what they were during the previous 20-year period. This has caused concern because it affects U.S. living standards, contributes to inflation, and makes U.S. products less price-competitive.

Most frequently cited reasons for the decline in productivity are (1) fall-off in capital investment in technologies and equipment, (2) transfer of productive technologies to foreign countries, (3) heavy cost of regulation, (4) slackening in the introduction of new technologies and equipment, and (5) need for a better business environment, in general. Perhaps the most important way to restore the U.S. competitive edge is establishing a cooperative environment between Government and business. This environment would minimize the risk of introducing new technologies to enhance productive and competitive growth. If the United States can improve its productivity, net trade benefits are certain to accrue. If the rate of productivity growth languishes or worsens, the U.S. trade position will certainly suffer.

These questions need to be addressed.

1. What can be done to develop relationships between U.S. public and private sectors that will focus on technogies to increase productivity and make U.S. products more competitive in world trade?

2. Is it feasible to develop an inventory of domestic industries that have technology needs for improved productivity and to direct financial resources into satisfying these needs?

3. What can be done to insure that U.S. industries are primary beneficiaries of productivity technologies developed here and abroad; is there an effective clearinghouse that permits timely access to foreign productivity techniques and technologies?

4. Should the Government undertake discrete programs to assist individual companies or industries that are experiencing productivity declines?

5. What are the linkages between domestic productivity and international trade competitiveness on a sector/product basis?

6. Can the environment between industry and labor be improved to make labor an active participant in planning for industrial innovation, thus minimizing labor dislocations?

TECHNOLOGY TRANSFER

The United States has long favored an open international economic system, including the transfer of technology (except for weapons systems, military equipment, or strategically significant technology). Most people agree that controls over exports should be kept to a minimum, but the difficult distinctions between what should be controlled, why, and for how long makes application of controls extremely difficult and are the source of much conflict. The open U.S. system reflects a basic belief that U.S. economic interests are best served by an expanding world economy in which other countries are increasingly able to buy U.S. products and the United States is able to receive and use foreign technological advances.

U.S. leadership in high-technology products has been an important source of U.S. economic strength, and technological exchange programs have been used to strengthen political relations with other countries. Strong Government support of private research and development can help to insure U.S. technological advances.

Nevertheless, there is a fear that technology flows can substitute for U.S. jobs and exports. It is argued that such flows are not detrimental to U.S. interests and, indeed, can have important economic benefits, such as creating new markets and locating foreign production facilities in the United States to exploit their new technologies. It is difficult to determine the overall effects of technology transfers in terms of employment gains and losses and retaining a competitive lead in high-technology innovation. Presently, the United States lacks a sectoral analysis capability to intelligently analyze possible tradeoff decisions.

A December 1976 report, "Government and the Nation's Resources," by the National Commission on Supplies and Shortages identified the need for sectoral specialists to integrate information produced by agencies and departments into a comprehensive picture of how Government policies combine to affect basic industry and national interests. The report noted that Government policies which are developed and implemented without an understanding of how they affect industries and interact with other policies often create more problems than they solve.

These questions need to be answered.

1. How can industry, Government, university, and labor relationships be fostered with a goal of sustaining technological advances and world transfers beneficial overall to U.S. interests?

2. How should technology be defined and technology transfers measured so that the pros and cons, domestically and internationally, are considered in a tradeoff manner?

3. What changes are needed in the U.S. data base concerning technology transfers to develop the necessary statistics and records of technology flows to and from the United States to make informed judgments as to short-term/long-term benefits?

4. Are existing executive branch organizational arrangements adequate for monitoring transfers of technology?

GOVERNMENT REGULATION

Government regulations affect both the levels and types of U.S. exports and imports. At times, foreign trade impacts are the direct and intended results of regulation. Often though, regulations intended to achieve domestic goals also have significant and unintended secondary effects on U.S. trade.

Some people believe that the regulatory process can be applied so as to achieve the desired goals for the environment, workplace, and consumer products with minimum adverse effects on other important economic goals, such as jobs, investment, and export expansion. Environmental, health and safety, and anti-trust regulations are among those most prominently mentioned as affecting exports.

The recently established President's Regulatory Council could help to pinpoint the costs of regulations, allow for setting priorities, and alleviate some of the uncertainty inherent in regulations affecting international trade.

These questions need to be answered.

1. Will the President's Regulatory Council be an effective device for setting meaningful priorities involving regulatory costs and their application to international commerce?

2. Should U.S. exports be subject to the same domestic requirements, such as health and safety standards, as goods for the domestic market; if so, how can the domestic economy, in turn, be protected from foreign products not meeting or being produced under these same standards?

3. Is there some way to equate U.S. and foreign regulatory compliance costs so that U.S. products are not put at an unfair disadvantage by their higher costs in U.S. and third-country markets?

4. Have other countries accomplished their regulatory activities at lower costs and with less economic disruption than the United States, and can their methods be used in this country?

EXPORT PROMOTION

All major competitor industrialized countries promote the export of their products. In the United States, Commerce and Agriculture provide the bulk of promotional assistance to firms interested in exporting. One study ranks the United States third behind the United Kingdom and France in promotional spending.

It is extremely difficult to gauge the success of export promotion expenditures in stimulating exports. Although there can be little doubt that promotion is of some help, one has to wonder whether substantive improvement in U.S. performance is possible (when weighed in terms of the dimensions of U.S. trade deficits). A better approach to making needed changes in levels of exports through promotion is to analyze the basic existing Government-business relationship and then modify the relationship as necessary to accomplish mutually agreed upon goals.

The United States, for example, does not identify specific target industries or companies that it is in the national interest to help nor work with representatives to accomplish the goals. In short, there is no "export contract" relationship. In contrast, other governments consciously decide which industrial sectors and companies they will help and how. Also, the United States does not try to maximize its competitive advantage in particular products, product lines, industries, or companies nor give serious thought to creating export industries as an economic objective.

The following questions need to be addressed.

1. What is the proper nature and extent of Government participation in furthering U.S. trade interests, particularly as it concerns the Government-business relationship?

2. Should the United States consciously identify and work with specific industries and companies with potential for performing well in international trade; should there be an "export contract" relationship?

3. Is there merit in placing promotional emphasis on the development of "export industries"?

4. How can domestic economic goals, such as limiting unemployment, be factored into decisions on what products to promote or companies to support?

EXPORT FINANCING

The Export-Import Bank (Eximbank), the Government's primary credit institution for financing U.S. industrial exports, operates under conflicting policies. It is directed to meet the competition so that U.S. exporters are not at a disadvantage in the credit terms they offer, but, according to the Bank, it is expected to be self-sustaining. Because of this, Eximbank in some cases cannot provide rates that match those of other official government lending institutions. Private industry and commercial bank officials also complain that other countries offer programs not available to U.S. exporters and that U.S. export sales are being lost. Negotiations to harmonize credit arrangements among countries have not been completely successful up to this point, although they have made some progress and are expected to continue.

Eximbank, unlike its foreign counterparts, operates under a number of policy constraints which prevent it from fully supporting U.S. exports. These include human rights considerations and limitations on financing in Communist countries. Eximbank also is required to submit all transactions exceeding certain amounts for congressional consideration.

We believe these questions need to be addressed.

1. Should Eximbank continue to be viewed as a nonsubsidized mechanism for financing U.S. exports?

2. Should Eximbank or some other agency provide (a) inflation insurance, (b) exchange rate insurance, and (c) bid and performance bond insurance?

3. What ordering of priority should human rights and financing of sales to Communist countries have in terms of their influence on the financing of U.S. exports?

4. To what extent should Eximbank restrict its support of foreign buyer local costs and its support of foreign content in U.S. export sales?

INTERNATIONAL COLLECTIONS AND PAYMENTS

Three areas, often overlooked for their balance-of-payments importance, that have significant ramifications for the U.S. current account and that could work to offset advantages from increased exports are (1) failure to bill for and collect large foreign military sales costs, (2) overcompensation of foreign nationals employed by the Department of Defense overseas, and (3) payment of social security benefits to large numbers of beneficiaries living abroad.

We have issued numerous reports on Defense's continued failure to properly price and bill for foreign military sales. This failure has resulted in hundreds of millions of dollars in subsidies to the sales program, primarily because of a general lack of effort on the part of Defense to insure that its policies are properly implemented by the military services.

Overcompensation of foreign employees stems essentially from inappropriate policies for setting local wage scales and accrued separation liabilities. These annual overpayments and conditions exist in each of the countries examined, where Defense employs 90 percent of its foreign national workforce.

Social Security payments are made in increasing numbers to beneficiaries living overseas and now total nearly three-quarters of a billion dollars. While an increase in the beneficiary population is not inherently bad, a growing number of illegal aliens earn wages in this country and may someday qualify for benefits, presenting a potential major problem. Another condition of significance concerns the negotiation of totalization agreements with other countries under which reciprocal benefits will be paid. For those countries that have had a large migration of illegal aliens, the agreements could accelerate and enlarge payments and adversely affect U.S. interests.

These questions need to be considered.

1. What can Defense do to remedy the identified defects in its accounting system to insure that all bona fide costs are included in foreign billings?

2. Should Defense reexamine all foreign military sales made in previous years to determine the value of nonrecovered costs and attempt to collect these costs from foreign governments?

3. Should Congress change the current legislation in order to preclude Social Security payments overseas to illegal aliens?

4. Are the future implications and costs to the United States from entering totalization agreements of major consequence to its payments position?

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The U.S. trade and payments posture is much too important to be left completely to the uncertainties of the international marketplace and to the influence of Government actions which are often adverse, are rarely coordinated, and are often taken without consideration of other objectives. The United States must get its trade policies and activities organized and coordinated now. This report raises questions that need to be addressed in developing a coordinated and balanced approach to U.S. problems now and over the longer term.

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