



## THE AMERICAN INDUSTRIAL COMPLEX

Hon. Hickman Price, Jr.

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Reviewed by: Col. Ingwire      Date: 8 Mar 63

**INDUSTRIAL COLLEGE OF THE ARMED FORCES**  
**WASHINGTON, D. C.**

1962 - 1963

~~THE AMERICAN INDUSTRIAL COMPLEX~~

18 December 1962

CONTENTS

	<u>Page</u>
INTRODUCTION--Vice Admiral Rufus E. Rose, USN, Commandant, ICAF.....	1
SPEAKER--Honorable Hickman Price, Jr., Assistant Secretary of Commerce for Domestic Affairs.....	1
GENERAL DISCUSSION.....	16

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INDUSTRIAL COLLEGE OF THE ARMED FORCES

Washington 25, D. C.

~~THE AMERICAN INDUSTRIAL COMPLEX~~

18 December 1962

ADMIRAL ROSE: Gentlemen:

We started our session a week ago on the Material Management Unit. We have been looking into military procurement and research and development. This morning we turn our attention to another very important part of the study, and that is industrial production. As you know, we will be considering this for some time.

To start this series we have, I think, the best speaker we could get for this kickoff part. Our speaker has served overseas. He served as a member of a large commercial firm in several places. He has also served in the Government.

Incidentally, he just got in last night from a conference in London, where he has been for some time. We are glad the plane was not any later than it was.

Anyway, without further ado, it is a great pleasure to introduce the Honorable Hickman Price, Jr., the Assistant Secretary of Commerce for Domestic Affairs, who will speak to us on the subject of the American Industrial Complex.

Mr. Price.

MR. PRICE: Thank you, Admiral Rose. Good morning, gentlemen.

I find that history repeats itself. I have in front of me some remarks that I made from this platform in this excellent auditorium to your predecessors of last year. Perhaps it is just as well that the Admiral has asked me back again, because in going through I could see those few places where I was right and the many places

where I was wrong.

I thought that ~~before going ahead to where we might be going~~ from here I would take a few parts of my statements to you of December 20 of last year to see what we said in the light of the last 12 months and compare them with where we are.

I went first through the question of our GNP, our gross national product, as to where we had been over the year 1961, and where we found ourselves at the beginning of this Administration, with a GNP of \$501 billion, based, of course, at the annual rate in that first quarter of last year. I carried us through and rather stupidly predicted that by the second quarter of this year, 1962, we would be at \$560 billion. The figure for that quarter was \$552 billion. In the third quarter it was slightly higher, at the annual rate of \$555 billion. This was due to some slowing of confidence during the earlier part of the year. It would appear that this has been in a considerable part restored--I believe more than restored, and I should think that in the course of the next six months anyone in the economics end of the Government would agree that we should be headed toward \$575 billion, which is, of course, a considerable difference from what it was at the annual rate at the beginning of last year.

There remain certain considerable maladies. One of these is our rate of employment which, despite the current trend, still is at 5.8 percent, seasonally adjusted. Nor, can I say frankly, do I see any very great possibility of a material improvement in that. There are many reasons for this, which I will come to later.

I also made another mistake, and that was that in a rather considerable discussion of the Common Market, which I also will like to touch on briefly today, I said:

~~"As you well know, the United Kingdom has applied for entry into the Common Market. This came after the considerable financial crisis which the U. K. went through earlier this year." This was 1961. "The U. K. learned, and rather painfully so, that it could not stay out of that economic alliance that is known as the Common Market. Its growth rate, the only one in the world, of any industrial nation, lower than our own. And, as the economies of the Common Market countries improved, that of the U. K. remained relatively static."~~

I then went on and said that in my judgment by the end of 1961 as the numerous problems were settled and worked out, including the wide differences in agricultural policy, particularly involving the Commonwealth, the U. K. would participate in the Common Market.

I was wrong, I regret to say. A great many other people also, I am afraid, were a bit wrong.

Coming down to our own situation, in the great tapestry of history which is being built, of which you are such an important part, in the global fabric of our world struggle and our world development--perhaps we might even go father than global; we might even say terrestrial--our own domestic economy remains of great and continuing importance. I think it is obvious that it will be some years before we will be able to assume that all of the free world can be able to trade together on the basis of total equality and that, if our free world is to have the total strength that it must have, our own domestic economy must come first in our own minds.

This is something of a paradox in a way, because, for so many years we have

~~made grave and long efforts, going back to Lend Lease in the second war, and continuing through the period of 1948, the beginning of the Marshall Plan, to aid, not only financially and militarily, but also heavily from the standpoint of trade development of Western Europe and much of the rest of the world. This has taken the form of our active participation in the GATT, in the principles of free trade. I refer not to that of any single party, because actually very much of the substantial tariff adjustments downward that have been made were made during the eight years ending the 20th of January last year.~~

The posture, therefore, of the United States has been one in which we have deliberately encouraged the development of the free-enterprise system to the maximum possible extent elsewhere in the world and making that system able to trade not only with itself but with us and with the rest of the free world. We have continued to proceed on that course during the history of the past year. There was passed herein the United States what was perhaps the most significant piece of legislation in this whole area since the time of the Marshall Plan, namely, the Trade Expansion Act of 1962.

In reading my remarks of last year I find that I was fairly accurate on that. I missed it very, very slightly, as to the length of time in which the adjustments could be made. I said 7 to 10 years. Actually it will come within 5 years, which is the life of the Act.

The United States, therefore, has readied itself in the passage of that Act for the establishment of ourselves on an even more important world basis as a partner, a trading partner in an expanded world trade pattern. All of you know very well

~~the provisions of the Act. There are two principal ones. One is a reduction of 50 percent over five years. The other is, and much more importantly, where 80 percent of world trade is done between the EEC, or the European Common Market, as constituted, at the time that the adjustment is made, and ourselves, that the tariff may be reduced to zero.~~

With this come, of course, very great complexities. The negotiations for such tariff adjustments will be made in the course of the next year, after a period of considerable preparation. There is a third part of the Act which provides for economic adjustment, social adjustment, in the cases of those industries where it is clearly proven that they have fallen by the wayside as the result of such changes in trade.

The more cynical of American industry would regard that as paying for the funeral after the event. However, I think it may broadly be stated that nothing in God's world, including our own military and what it is doing, stands still in today's world, and there may have to be a word that I completely dislike to apply to industry or people--there may have to be some degree of expendability in the course of this great change.

But the important thing is that this be negotiated, as we all pray that it will be, by Mr. Herter and his new associates, in such a way that the interests of the United States be preserved, and that as a hard trading question we simply not give away those remaining advantages that we may have, because it is, I think, quite clear to anyone who operates in Western Europe or is at all familiar with Western European and even Japanese modern industry that we are faced with a factor of

competition that goes vastly beyond that of a lower wage scale, that in much of Western Europe, and particularly true in Germany and to a somewhat lesser extent in France and Belgium, and to a good deal lesser extent in the United Kingdom, unhappily, and in Italy, a considerable part of the industrial plant of these nations-- and I should also mention a good part in Japan--is quite comparable to our own.

As I said to your group last year, here at home we have been in the past until the very recent past inclined toward a bit too much complacency with regard to our domestic industrial economy. This does not mean that enormous advances, as you so well know, in scientific and technological progress, have not been made. They have been made. The only question in my mind is: Have they been made enough? Have we done all that we could have done with respect to R&D, outside of projects that have been directly related to military or space endeavor? The answer is probably, no. The answer, I think, the President gave last week, better than any man has ever put it. The answer is that we have attempted really to do two things at the same time. We have attempted to make great social strides ahead in the world, not only in this country but for other countries outside of the country, and we have had to act as the shield and the defense of the free world at great cost, with the result that we are paying, we the American people, which means the American industry, vastly more out of our total income in the form of taxes than we should pay, with the result that we come to an imbalance, so to speak, as to incentive within our system.

In the first place, our industrial profits are, in my judgment, not adequate, and, while we are having currently some considerable increase in the amount of

investment in new business, this still continues at an unsatisfactory rate. Let me illustrate. Based on the latest figures which we have, we are running at the rate, on corporate profits at an adjusted seasonal basis, of \$50 billion a quarter. In the second quarter of 1959, with the previous high, we were at \$52 billion. The second quarter of 1959 was close to exactly 3-1/2 years ago. In other words, with an expanded plant since that time, and with an expanded consuming public, the profits of industry are running behind what they were as of that time.

To be slightly political about this, I don't believe it is due to any great problem, such as that, for example, there might have been a misunderstanding between the United States Steel Corporation and the President earlier last year. I think the issue is much broader than this, because, if American business can have the opportunity of earning an adequate return, particularly in venture growth, which is where so much of our future lies, clearly it will make the investment regardless of whether it personally likes the President of the United States or otherwise.

Therefore, the time has come, and as I said last year to your predecessor group, the big battle of 1962 will be the battle of the Trade Act. The battle of 1963 will be the big battle on how much and to what extent there will be tax reduction, and also what form of overall reform can be put into such a bill. Like anything that has grown up over the years, in this case since 1913--not so long ago, within the lifetimes of very many of us in this room--and very little changed except added to over the years, such a tax structure can become enormously encrusted with obsolescence and also with special interests and special privileges. Although, I am sure, like all of us in

~~this room, I am all for special privilege as far as it affects me, nevertheless we have to think in terms of the overall good of the country. I do hope, therefore, that there will be reform as well as reduction, but basically there has to be reduction, and this reduction has to be bigger than it was in the last year in the form of the incentive.~~

Last year I covered in ~~this little talk two areas on incentive,~~ incentive for investment in industry ~~so that we could modernize, so that we could increase the narrowing gap of the historic industrial superiority of the United States as opposed to Western Europe. Let me repeat--only by that system, only by a system of greater R&D, only by a system of greater new development, can that historic gap be maintained and, if possible, increased.~~

How do you do it? ~~You do it by incentive, the only thing I know which is a carrot under the fellow's nose, as long as we live in the capitalistic system, and I hope to God we do all our lives.~~

Last year I mentioned ~~two things that were going to come up.~~ The first was a form of incentive in the tax bill. The tax bill was one of the most controversial issues in the last Congress. It was cluttered with a lot of stuff ~~that in the light of history--and not being in the Treasury Department I can afford to say so--probably should have never been there in the first place.~~

This particular feature was ~~inadequately explained.~~ It would have provided a credit to American industry in the amount of something of the range of \$3 billion for this purpose only. It did not come off in that form; not only that but it was materially cut.

~~The second small prognostication that I attempted to make would be rather significant changes in Schedule F. Schedule F, as you know, is the depreciation table that is drawn up by the Treasury. There have been no reductions or changes in the rates of depreciation in that table from 1942 until the calendar year 1962. This is what I mean by encrustation and obsolescence.~~

~~There were major changes made in 1962 which were, I hope, merely harbingers of where we go from here on as to this tax cut. But again I want to emphasize that a tax cut, just for the sake of a tax cut, could be like a fellow who is feeling pretty poorly taking a shot of some pep-up drug in order to make him feel a little temporarily better.~~

~~What we need is a massive injection of plant, equipment, machinery, and know-how, and R&D. That is what we hope will be heavily included in this bill. Because we live in a democracy and because there are great invested interests which have grown up over many years, which are not necessarily confined to the industrial complex of the country but to labor as well, it is clear, I would think, that such tax cuts would have to include, heavily and importantly, also personal incomes, but it is to be hoped that the reduction in the corporate tax rate will be of sufficient significance to aid in some incentive, and that that shall be coupled with a special program on R&D which would make, as for example, a double allowance for depreciation for every dollar spent, or some similar formula--and there are a number of such formulae that are applicable.~~

~~What is in the long run rather alarming without this, or without the further development of our industrial plant, not merely for the creation of plant, because~~

in many industries we have too much plant, but in the development of new products and of new industries, and what makes imperative the necessity for that, is putting it--and I must do it in academic terms, although I am anything but an academician--as what we call our sluggish growth rate. When you contrast our growth rate, which has averaged over the past decade something less than 3 percent, with what is going on in the EEC in general, and in certain of the more progressive countries of the EEC in particular, or with Japan, and even granted that they started at a very much lower base, the contrast is startling. The EEC this last year will have run slightly above 5 percent in the average. That's for all six of them. Japan will continue right about 9 percent, despite some tapering. I am talking, of course, of annual growth rate. The Canadians are in a position similar to ourselves, rather worse off, and badly need a considerable amount of adjustment themselves. The sickest of all, long term, is the U. K. This one is a very special problem, and I will come back to it in a few minutes.

But, fundamentally, for our whole system to survive and to go forward in the course of our lifetimes, to a point where we can look confidently at the gap between us and the East, and say that gap is going to be maintained or is going to be increased, we simply have to increase this rate, and there is no other way of increasing this rate except by pulling ourselves up continuously by our own bootstraps in the form of such new development and new industrial activity, including, might I add, some distribution reforms that also are needed and, I think, gradually are in process of unfolding. Our distribution still costs much too much in relation to our total economy. It is interesting, for example, as we have had a continuance of

~~wholesale prices at pretty much the levels of the last three years, that our retail prices have not gone down proportionately. This I think is in part wrong, although, of course, it can be argued that services have become now a very major part of our national economy, even though they are not directly productive.~~

~~That I would think was the major economic break-through or attempted push in the year to come. If we can achieve that, and if we can have a continuance of our general buildup of confidence of the last 4 to 5 months, then I should think that our general economy should progress well during the course of the year. But we have to in turn equate that with a number of other problems quite apart from the larger political field in an international sense.~~

~~The first is the grave problem that is faced by the United Kingdom, being for the moment left out of the European Common Market. The reason I was late in getting here was that I decided to have a profitable weekend, and I went up into the Midlands. I spoiled a lot of English weekends for a lot of English industrialists. I went through a lot of plants which I hadn't been through in some 3 or 4 years. If you want to go through a cold, dreary weekend, try the Midlands in the rain in late December in factories where they turn the heat off over the weekend. But having grown up in the manufacturing end of the business, this is something that I can understand.~~

~~I talked with these fellows at some considerable length. These were in the main the fellows that owned the businesses. I found a note of discouragement on their part which was in rather marked contrast with, for example, the happy summer of 1959, when, you remember, there was in general such a feeling of revived~~

~~confidence and that England was making an adequate forward move.~~ I found a feeling of frustration, ~~a feeling of wondering whether they can really make the grade.~~ GATT-wise their feeling is that the British government has probably overdone it, that they have pulled down their tariffs too rapidly, that they have permitted too large an inundation. I ran into a number of industries where, to my considerable surprise and some pleasure, I found that we were making economic penetrations that I hadn't anticipated. But, nevertheless, these penetrations in themselves, without an offset of continued export from the U. K. in terms of hard currency, set up major problems.

I will give you just one illustration. One company which makes motors, good ones, in 1950, running at capacity, produced 3,000 engines a week. Currently the capacity is 7,000. They are running at 4,000 and losing at the annual rate of 2 million pounds a year. In other words, they had built up for something that was larger than the U. K. market. They had built up particularly in the last two years in anticipation of the EEC, particularly in anticipation of exports into Germany, where certain of their types of engines are not produced in great volume. The German tariff has actually gone up as a result of the leveling of all of the tariffs of the six countries under the provisions of the Treaty of Rome. Consequently that particular company, simply because there is apparently not a market in the United Kingdom, plus minor exports to X Dominions, / produces not more than 4,000 engines per week, because any increases in the U. K. are substantially harried by comparable reductions in U. K. tariffs in the course of the last two years on this particular type of engines, with resulting shipments from the United States. They therefore

~~face a shrunken domestic market and a very limited possibility of sale to the EEC.~~  
I cite ~~this as a particular example, and it is not untypical of the total picture.~~ In other words, the U. K. is temporarily, at least, in ~~something of a box.~~ It is neither fish nor fowl. It is neither empire, in the grand old lion-roaring sense, nor is it yet part of Europe, which is, of course, where it logically belongs in this stage of its development.

~~As Secretary McNamara very properly pointed out to them, the day of independence, for example, as far as world power in the sense of today's military significance is concerned, is a thing of the past.~~

~~To a certain extent, this is now also becoming true industrially, with certain great exceptions, such as oil in the Middle East, and that sort of thing.~~

Therefore, not yet being part of Europe, they are between the devil and the deep, blue sea. This in turn is going to make grave problems of adjustment for us and for Europe, and it is something that I hope very much, with the selfishness of the agricultural situation in the EEC--and may I add they are not unique in that field; we share it--will not stand forever in their way, because they still constitute, spiritually speaking, at least, about as close a potential ally as we have.

I have gone some distance out of my way to describe the problem in the U. K. which I have just witnessed with my own eyes again, or refreshed my recollection, because this is what could in a slightly different sense happen to us if we are caught in a vise between trade to Western Europe which we hope will be resolved by our new trade act and a lack of adequate R&D within our own country to develop new industries, new products, and new industrial activities.

It's a red flag to me. ~~Two years ago, or three years ago, even,~~ I would have said that this probably wouldn't have happened in the U. K., that the great line of improvement which had been shown would continue. May I also parenthetically say that there is one thing from which they are currently suffering, and we are not, which may in part change this situation. That is that the U. K. has not yet learned, nor has the EEC, that for all their problems and difficulties there are asill great advantages to the growth of the total economy by the existence of the antitrust laws or their equivalent.

Just one more quick illustration so I can shew you how this works. I said to this fellow, "I am a business man myself, and a manufacturer. You say you can sell only 4,000 engines a week. All right. Now, let's go over what you can do with the rest of this machinery and equipment. I'll walk out with you real fast and we'll have a look at it." It's pretty good stuff, new, or essentially new, and a great deal of it German, by the way. We figured out 2 or 3 applications that might be rather interesting. Essentially these were the manufacture of certain types of automotive parts for the growing British automotive industry. I hit on one, and I said, "How about valves?" He said, "You know, that's very interesting. In the last 5 years all of the valve companies have disappeared in the U. K. except one. That one has bought up all the others." I asked, "What kind of product do they make?" He said, "You know, it really isn't as good as it should be." He's a pretty knowledgeable fellow. I said, "How are their prices?" He said, "Only supported by one thing. They so far have been able to maintain an adequate tariff." The answer was very simple. What they needed was a little competition, and I hope

to God that fellow gives it to them. We in this country, I think, have learned that lesson a long time ago, and it may act as something of a counterbalance to this other problem that I have given.

All right. A fast wrap up--at home, probable continuing growth of the national product; modest increases in industrial profits; probably higher personal income, disproportionately to GNP; probably not too great a change in the unemployment rate--this year in one month we got down to 5.3, which was rather exceptional; we are now at 5.8; I would guess that if we do 5.5 for the year that will be remarkable, in 1963--a great and grave battle over the tax structure, which cuts right straight across our whole economic life, including the future of the dollar, or, in other words, the confidence in the dollar; as part of that battle a great controversy, a national debate, as to the extent of the deficit, what effect that deficit will have on our total economy over the long pull, and as to the extent to which a tax reduction will constitute over perhaps a longer period the question of an offset, or more than an offset; next, the \$64 question of how we plan out and map our own downward adjustments, with perhaps a very few upward ones, in our own tariffs during the course of 1963, or in other words how that is traded out--if it is just traded out blindly in great globs; perhaps some unnecessary degree of erosion in weaker industries here, and at the same time perhaps not taking adequate advantage of the opportunity of American industry to sell abroad, particularly to the EEC in those types and with those products to which our exports are best adapted.

Last, how does the U. K. fit into the world picture? Is it going to become a European state in the larger sense? What will happen if there is a further delay

in the ~~obvious historic fact that it must become a European state?~~ How will the Commonwealth, and I refer ~~specifically to Canada, Australia, and New Zealand,~~ the agrarian economies of these countries, adjust?

Next, ~~what will happen to us here on our own farm program in the course of adjusting here particularly to the European system or, like a magnet, we would hope, attracting some of the European system to us?~~

~~These are the issues on the broader economic front which must be decided or at least the course determined during the course of 1963.~~

I personally am immensely encouraged, looking back to a year ago the day after tomorrow, in this room, about what happened in the course of 1962. It was not all that everybody would want, but it was a year in very great general direction.

I haven't, of course, touched on an area that is not mine, with which you are more familiar, and that is the momentous, perhaps, change in the tide of history when we stood firm on Cuba. But 1963 should mark for us a year of considerable improvements, marked by decisions on the great fronts that I have just outlined. I think it is going to be a good year.

Now I am quite free for any questions which you might care to ask.

QUESTION: Sir, you mentioned the sluggish growth rate. What do you consider as being, say, a good growth rate in the United States?

MR. PRICE: Over 4 percent.

STUDENT: Over 4 and less than 5?

MR. PRICE: Well, 5 is one of those things we have to dream about. For the

time being, let's get 4. By the way, I don't mean that purely, just as a figure. In other words, whether it is 3 or whether it is 4 is an academic term. What I mean is that we have to replenish ourselves faster than we now are, particularly if we take into consideration our present birth rate, which is something that too few people are thinking about in the forward part of their minds. When you consider what the population in this country is going to be in 50 years, we are not doing enough for that, particularly in relation to our relative position with the rest of the world.

**QUESTION:** I think the audience is familiar with the rules of competition as they are laid out in Rule 3 of the Common Market. Do you feel that Europe, perhaps, let's say, will truly be able to enforce these rules of competition, or will the present national cartels just become international cartels, with a scope of six nations instead of one?

**MR. PRICE:** I touched on that fleetingly, as you saw. So far it has not come off. However, there is being developed in the EEC a type of public servant that is a rather new development. Most of them have had GATT training in varying forms, either with the GATT secretariat or working for their countries with the GATT. This has been both good and bad. It has been bad in the sense that it has forced some countries beyond their time. It has been good in that it has certainly speeded up the whole progress of the world toward world trade.

The philosophy of these people is pretty deeply ingrained. You see that in each of the countries, even including France, which used to be one of the most protectionist countries of the world. I have seen some of the French current bureaucracy.

These are young guys. ~~These are guys 40 years old or 45 years~~, not old people like me. I have seen them force the French industry, for example, into a position that 10 years ago was unthinkable. How far this will go against the great power of money and vested interests, only time can tell. I don't know. I think they are going to need a hell of a lot more legislation.

QUESTION: Sir, ~~some of our speakers mentioned that deficit spending was the only way to have a growing domestic economy, and others have said that we would have to have a balanced budget.~~ Which side of this debate are you on, sir, and which is the correct side?

MR. PRICE: I am in the middle. I don't think I said, or it was not my intent to say, that I am in favor of deficit spending. What I am in favor of is a reduction of the percentage of taxes being paid by business, or by the economy of the country as a whole. This percentage is at a level which is acting as a brake on the totality of the economy. I was not attempting to equate that to deficit or otherwise. If it were possible to cut out--and privately I think it is--a very great deal of spending on the nonmilitary side--and that I have to leave to experts--we certainly should do so. I can think of a number of areas where that is possible, and heavily so, and even though equated to the military expenditure it still is peanuts.

Did I answer you quite directly? I don't think I quite rang the bull's eye. Let me try it again. This year we will run in round figures \$7 to \$8 billion. It was planned on a relatively balanced basis. A number of factors threw it out, the larger part of them being military and space. If we are going to have a significant tax reduction, this must be in the range of--well today I would rather not give you a

figure, because it's all being worked on. But it is fairly major. Therefore, you might well have, provided that the Congress approves, a larger total deficit in, let us say, fiscal 1964, but, if what is almost certain to happen does happen, namely, that the investment that is made by that tax reduction in turn pays off in the form of profits, you start getting that back during the course of this decade, and heavily so.

Putting it differently, ~~sometimes I think~~ we look a little bit too much at the immediate trees instead of the overall forest. If we follow the theory of balanced budgets to the nth degree, we would probably slow ourselves down to the point of dessication. I don't mean that in the sense of heresy or going away out on the limb. I am not that kind of guy.

QUESTION: Sir, U. S. industry seems to be intrigued by the possibility of investing in the Common Market at the present time. What effect will this have or does it have on the economic health of the United States?

MR. PRICE: That is one of the best questions you can imagine, and it's one that I covered rather fully last year here. You will recall that under the old tax law which was in part but not wholly changed in the course of the last Congress, we encouraged that growth overseas in general. Actually it happened to work out in the EEC countries. We encouraged it by a special tax situation, including the retention without payment of U. S. corporate taxes of profits abroad.

I don't think that we can do that any more beyond a point. I realize that that does create an artificial situation of competition in, say, Germany, by an American-owned company against a German-owned company. But the time simply has to

~~come when we have got to look out after our own interests here.~~ I have no very strong feeling against investment abroad other than that of the balance-of-payments situation, which I didn't get a chance to get into today. I will in a second, though, if you will allow me. It is interesting.

I don't think we can give it any tax break above that which a domestic company has. That in itself is to some degree a deterrent.

Might I just say on the balance-of-payments question that I recall going back last year to the deficit of calendar year 1960, of \$3.9 billion, or call it \$4 billion. I remember estimating that we would run around \$2.5 billion for 1961. The picture this year is, of course, somewhat better. Over the next 3 or 4 years this problem does not appear to be as acute as it appeared to be in the past. Part of this is confidence, if we can just keep up this small degree of confidence that is partially being restored.

QUESTION: With respect to this last question, over the past few years we have been running a favorable balance of trade with an overall ~~bad~~ balance dollar-wise. The Administration is basing its defense of the dollar over the next several years on a continuing and increasing favorable balance of trade. In view of this increased industrialization of the EEC and of the emerging countries, is this real instinct?

MR. PRICE: First let me qualify your statement, if I may, that all of the hope of diminishing the deficit is based upon a continuing favorable trade balance. That is not wholly so. Remember that our costs abroad/<sup>that</sup> more than offset that balance have, in a significant part, in the course of the last 18 months, been reduced

~~somewhat by negotiations with various foreign powers, particularly those in the EEC, as to their sharing a somewhat larger part of the total cost of, for example, the carrying of troops abroad, which in itself is the one biggest single item.~~

The rest of the problem, ~~as to whether or not exports are going to continue to rise higher than imports, depends on a tremendous complexity of problems,~~ many of which I have touched on today. My feeling ~~is they are not.~~ My feeling is that the present favorable balance percentagewise to the total trade will continue at about the present level or decline very, very slightly. The reason I say that is that it is going to take at least some 2 or 3 years before there can be significant changes under the Trade Act in our favor that will be of great importance. Meanwhile there will continue to rise somewhat the import levels.

~~If you are interested, afterwards I will give you some current figures on it.~~

QUESTION: Mr. Price, you mentioned the hesitancy in the Common Market toward antitrust legislation or hopes in that direction. I am concerned about the reverse trend of accommodating ourselves to this competition. We are running in the other direction. For example, in this race for the next generation of transport aircraft, it is obvious, I think, from what I have read in the business press, that no U. S. aircraft firm can afford the risk of supersonic transport. The choice seems to be to ~~bliss~~ the U. S. type of cartel or for the U. S. Government to sponsor the R&D under its military project. Will you comment on this reverse trend?

MR. PRICE: Well, we get into a great philosophical area here. I think I would put it this way: The Antitrust Act of the 90's--the Sherman--and the Clayton

of the early 1900's, did not, of course, anticipate some of the great problems of today's world of immense capital investment, capital investment all out of proportion. Get into the field of transportation and you are in one that is colossal. How anybody is going to unravel the transportation problem of this country over the next decade, I'm a Chinaman's uncle if I know. I am afraid it is going to get worse rather than better.

Now, at the risk of being hauled in by the Attorney General, I don't think you are going to solve that one by antitrust procedures, nor do I think that you are going to solve probably your airplane manufacture question in that form, although parenthetically you know and I know that so far we probably have done better by having 3 or 4 companies in that area than had we had only one.

Moreover, in the whole field of overseas operation, these Acts did not anticipate that American companies would be operating in the home ground abroad of companies which are in many cases, for practical purposes, cartels. I think there are going to have to be some adjustments. But I think most of all that there has to be adjustment made on their side as well.

There is, as you know, a provision within the Treaty of Rome providing gradually, with some rather loose language, for such adjustments. It is for this that I am arguing, more than the other way. Eventually, and probably too slowly, we may solve some of our own--at the risk again of the Justice Department--obsolescence problems in the Antitrust Act.

QUESTION: Sir, in the coming debate on the tax reduction the top economists are battling among themselves about which is the better stimulant--reducing personal income taxes or reducing corporate taxes. I believe you earlier indicated

~~that you are in favor of the corporate boon. I wonder if you would expound, particularly to give us what you see to be the pros and the cons of each course.~~

MR. PRICE: Admiral, these gentlemen don't want a modest pipsquawk of an Assistant Secretary of Commerce. They want Solomon.

Well, there is the argument in favor of as large a percentage of tax reduction as possible being made to individual taxpayers, particularly at the lower income levels. The principal argument is that this increases spending prodigiously. If you increase spending prodigiously, you therefore increase production proportionately. If you increase production proportionately, you fill up all sorts of unused capacity in basic industries--steel for example. That in turn acts as a propellant to the thing that I want, which is new development, new processes, new techniques.

Argument the other way is that that's all very well and good and very true, but you don't get it fast enough, and if you have material reductions in taxes by massive reduction--and by "massive" I mean perhaps 5 and the maximum 7 or 8 percentage points--on corporate taxes, you then give the immediate carrot under the nose of the people who make the forward planning and the forward programing of how you invest for your future development.

Those are the two arguments. Which one is right? Nobody knows. The probable answer is some combination of the two. Politics being politics, that is probably what will happen, with a little bit more emphasis on the first.

QUESTION: You spoke of the need for trading out rather than throwing out our powers under the Trade Adjustment Act as though you and the Department of Commerce were not going to have very much to do about it and it is in the lap of

other gods. Could you give us a feel for what intergovernmental coordination is going on behind Mr. Herter's trade negotiation?

MR. PRICE: - The sole and absolute power of the negotiation of the Trade Expansion Act is vested in the "Special Representative for Trade Negotiation," the Presidential appointee and his deputies. He is now in the process of forming a staff, I am reliably informed. This organization will, however, not only negotiate. Negotiation is only part of the total battle. It will also be doing planning for negotiation.

While the Commerce Department does, and, we hope, will get into the act, enough to say, "Look, let's be a little careful about this fellow, or this fellow, we think, could stand it a little more," essentially the power of determination is that of the Trade Negotiator and his organization. You know the history of all these people. Therefore, it is very much to be hoped that business advice will be followed. I am going to cut that out of the script, by the way.

May I say that I am also going to cut this out. I think that one of the great problems this country has faced over the past several years is that we have had an extremely capable group of diplomats, experienced and able in their field, who have operated, of necessity, very often in the economic field in, for example, such questions as tariff, and have operated very largely in a vacuum. They have not sat down with competent industry people and have not been able to get into depth into what you do and what you don't do so as to trade out the situation of any given group of industry and industries. I am not critical when I say that. It is simply one of those things that develop, like Topsy, over the years, as with so many things,

~~with such rapidity, since the end of the war.~~

All I am saying is, ~~let us hope that this time, when we come down to the end of the grab bag--and we are darned near there right now--the rest of it will be traded out on a sound basis. Fifty years from now it isn't going to make a hell of a lot of difference, but it could over the next decade.~~

QUESTION: We've noticed that steel's share of the world market has declined over the last 7 years, that is, from about 46 percent to 25 percent in 1961. Also their bonded indebtedness has gone up about 450 percent over the same time period. Can you comment on whether or not this indicates that the U. S. steel industry is a sick industry?

MR. PRICE: First, let's equate the 450 to the total private debt. I don't recall the figure exactly, but that 450 is within range of the ball park as to the increase of the total private debt of the United States since the end of the war.

As for their decline in world markets, I would say that this was not due, really, so much to a question of lack of efficiency as it was to a question of the rise of other steel industries. If you will consider what has happened, for example, in the rise of the German steel industry, from zero or virtually so at the end of the war, of France, of even the United Kingdom, with substantial new capacities in Wales, of the Japanese who have gone up geometrically rather than arithmetically, you will see that exports that were a normal and logical thing for us 10 years ago or 12 years ago, in the case of steel--and this is true in a great many industries--should be reduced in a corresponding ratio to the rise of local industry.

This is, of course, another reason why we have to get so damn modern here

and why we have to obsolete our stuff as fast as we possibly can.

COLONEL WIKEN: -Mr. Secretary, you certainly have stimulated our thinking this morning, and I speak for the group. Thank you very much for an interesting presentation.