Arab world following the 1973 war and our efforts to bring about a just and lasting peace in the area. Kuwait's decision to broaden our relationship to include the sensitive area of national defense was a political gesture and, as such, was symptomatic of Kuwait's desire for closer cooperation with the United States.

From our point of view, it is in the U.S. interest to continue to work with Kuwait in such areas of mutual concern, having in mind the political and economic weight which Kuwait wields both in the Arab world and, in the economic sense, in the world at large.

In summary, then, we see our selective military exports to the Persian Gulf region, and specifically to Kuwait, as serving the U.S. national interest in several important ways.

—Support for the vital interests of the nations of the region is an integral part of our overall policy of encouraging friendly and mutually productive relations with those nations, relations which are indispensable to achievement of U.S. goals in the area.

—To the degree that these nations are able and willing to assume responsibility for their own security, and the stability of the gulf region, through the development of appropriate force structures, our own worldwide security posture is strengthened, because we and they share many of the same strategic goals.

—Conversely, our refusal to meet requests for assistance in the vital area of national defense, when the nations concerned clearly prefer U.S. assistance to that of other countries, would seriously jeopardize our larger political and economic objectives in the region.

Department Discusses International Economic Policy

Statement by Julius L. Katz
Deputy Assistant Secretary for Economic and Business Affairs [1]

I welcome this opportunity to appear before your subcommittee to discuss international economic policy. The subcommittee has posed provocative questions about our foreign economic policy objectives, our priorities, the coherence of our policies, and their interaction with other foreign policy goals. I will address each of these questions.

The postwar period has been a period of radical change in international economic and political life. Throughout this period certain fundamental objectives of our foreign economic policy have persisted. The coherence and continuity of these basic objectives over the past 30 years is, I think, remarkable.

Our continuing objectives can be stated briefly.

We want an open world economy that permits market forces to operate with minimum restrictions on the flow of goods, services, capital, and technology across national boundaries. We want an international monetary system that facilitates trade and investment. We want a concerted and sustained effort by the economically advanced countries to improve the prospects for economic and social progress in the developing countries. We want international and regional economic institutions for consultation and cooperation governed by rules for

[1] Made before the Subcommittee on International Economic Policy of the House Committee on International Relations on Oct. 23. The complete transcript of the hearings will be published by the committee and will be available from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

economic relationships and the orderly resolution of conflicting interests.

These are and have been the central elements of our foreign economic policy. They rest on the proposition that an open world economy operating under agreed rules enables countries to maximize the economic gains from international exchange. It is also the most felicitous environment for international cooperation.

These objectives guided us in the immediate postwar period. Profiting from the bitter lesson of the interwar years, when each nation sought—without success—to better itself at the expense of its neighbors and international economic life was strangled by controls, we took the leadership in developing new international institutions and rules to free trade and payments of encumbrances and to encourage international investment:

—The GATT [General Agreement on Tariffs and Trade] to reduce barriers to trade and eliminate discriminatory treatment in international commerce.

—The International Monetary Fund (IMF) to establish a multilateral system of payments and eliminate foreign exchange restrictions that hamper the growth of trade.

—The World Bank to encourage international investment, including importantly private foreign investment, for economic development.

The purpose common to all three institutions was the promotion of high levels of employment and real income and the development of the productive resources of their members.

The world economy flourished under this regime. We enjoyed an unparalleled expansion of world trade, an unparalleled expansion of private international investment flows, rising employment, rising production, rising levels of personal consumption and well-being, the longest period of sustained and rapid economic growth in history.

The foreign economic policy objectives that animated us 30 years ago persist today. But the policies, programs, and institutional structures needed to give effect to these objectives change, as they must, in response to changing needs and circumstances. The economic and political contours of the world have altered radically. New nations have been born; old nations have recovered and surged forward; the relative economic power of the United States has diminished. Countries have become more interconnected, more exposed and dependent on each other. Inflation and recession coexist and have spread throughout the world. The supply of oil is tightly controlled, and its price is escalating.

Clearly, institutions and rules must be modernized to take account of these and other changes. This is the case for the trading and the monetary system. New institutions and new programs must be developed to meet new problems—notably those of energy and food supply. The needs of the developing countries for increased opportunities for growth and participation must be heeded. Foreign economic policy is not lacking in coherence—the basic objectives give it coherence—but policies must evolve in a continuing and necessary process of adaptation and renewal.

The subcommittee has asked, and I quote, "What is in fact current U.S. international economic policy? What are its major short-term and long-term objectives?" I would like to respond to this inquiry by looking at certain major constituent elements of our foreign economic relations and indicating succinctly what we are doing and why.

Trade and Monetary System

Trade. We are deeply engaged in the Tokyo round of multilateral trade negotiations, the seventh major such effort to reduce barriers to trade. Our objectives are twofold: the reciprocal reduction of barriers to industrial and agricultural trade and the improvement of rules governing international trading relations. We are here continuing a familiar and historic process of trade liberalization, a process that is especially important now because of the resurgence of protectionist sentiment both here and abroad.

Tariffs, although low on average, are not negligible; and "tariff escalation"—that is, higher duties on processed and manufactured goods than on the raw materials from which they are made—is an obstacle both to industrialization in developing countries and to the efficiency of the world economy. The need to reduce barriers to agricultural trade is especially important. New rules are needed on nontariff trade barriers; we are giving priority attention in this connection to export subsidies and government procurement practices. And we propose to negotiate rules—and commitments—governing the use of export restraints much along the lines of existing rules governing import restraints.

To improve the trade prospects of the poor countries and therewith their economic development, we expect to put into effect a general system of tariff preferences on January 1. In the multilateral trade negotiations we will seek early agreement on reducing barriers to tropical products that are the major source of LDC [less developed countries] export earnings.

We want also to expand trade and normalize economic relations with the Communist countries of Eastern Europe, the U.S.S.R., and the People's Republic of China.

Monetary System. The rigidities that developed in the Bretton Woods system impeded rather than facilitated international trade and investment, and radical changes have taken place in that system. Intensive work on comprehensive reform was checked by the energy crisis and galloping inflation. We are, however, participating in examination of certain amendments to the IMF charter and other immediate steps in order to begin an evolutionary process of reform. Of particular importance are the amendments on exchange arrangements, reserve assets, and the structure and decisionmaking apparatus of the Fund.

With respect to exchange rate arrangements, we recognize that these are matters of international concern, but we want greater flexibility in the choice and operation of the exchange arrangements of individual members, provided the members observe agreed policies and guidelines and accept the surveillance of the Fund. We oppose any commitment to a return to a par value system, although we recognize the right of any country to establish and maintain a par value for its currency if it wishes. For our part we prefer that our exchange rate be determined essentially by market forces.

We have for some time sought to reduce the status and role of gold as one of the most important reserve assets—which it has under the present articles of the Fund. Progress has been made in reaching understanding on how this should be effected. We want care taken to avoid the restoration of gold to its former position and a new pegged price. We believe the SDR [special drawing rights]—which we took the lead in creating—should take over many of the functions and the role performed by gold.

We favor the creation in the Fund of a permanent council at ministerial level with decisionmaking authority. In this regard, it is important that the United States retain a voice commensurate with its role in economic and financial affairs.

Foreign Investment Issues

Investment. Foreign investment is a dynamic and contentious issue in our international relations. Our traditional policy is to provide maximum freedom for our investors to invest abroad and for foreign investors to invest in the United States and to enjoy nondiscriminatory treatment. The policy is based on the proposition that world output will be greater if capital and management skills go where they can be employed most efficiently—from areas of low return to areas of high return.

This policy is not universally endorsed. Private foreign investment, and in particular the transnational company, which is the major instrument today for foreign investment, is a highly emotional issue. Countries want foreign investment for the benefits it brings, but they fear it because it is foreign. We believe it would be beneficial for the international community to develop a body of basic balanced principles, of standards of conduct, to guide transnational enterprises and governments in their mutual relations.

We are participating in such efforts in the OECD [Organization for Economic Cooperation and Development] and the United Nations. The guidelines should be indicative rather than mandatory. An internationally agreed set of guidelines would give governments and enterprises a better understanding of the expectations each has regarding the other's behavior. We also strongly favor the development of mechanisms for the settlement of investment disputes. Such mechanisms are a desirable means of depoliticizing and resolving disagreements between foreign investors and host governments.

Concern about the inflow of private investment into the United States, especially by the major oil-producing nations, has been evident. Following an intensive review of U.S. policy on foreign investment in the United States, we have concluded that we should continue our traditional commitment to national treatment for, and noninterference with, most foreign investment in the United States, consistent with existing laws and regulations. We will, however, maintain closer oversight of those investments through a new Office and Interagency Committee on Foreign Investment in the United States. In addition, we will seek assurances from those governments capable of making large investments that they will consult with us prior to undertaking major investment in this country.

Energy and Raw Materials

Energy. The oil embargo in 1973 and the staggering price increases that followed put enormous strains on the world economy and made clear the dangerous vulnerability that we and our allies had incurred by our growing dependence on imported oil. Neither the supply nor the price of a central factor in our economies was any longer under our control.

Our response was to develop a comprehensive strategy to deal with both the immediate problems and dangers and the longer term implications of the new energy situation. We joined with other major consuming countries in the newly created International Energy Agency. To cope with the shortrun dangers such as a new embargo and oil-related balance-of-payments problems, we and our partners in the IEA joined in a plan for mutual assistance in the event of embargo, involving emergency oil stocks, reduced oil consumption, and oil sharing; agreed on a $25 billion support fund to provide assurance of financial assistance in the event of severe balance-of-payments difficulties; and at U.S. initiative, proposed that the International Monetary Fund create a trust fund for concessional loans to developing countries hit hardest by oil price increases.

To deal with the fundamental longer term problem of excessive dependence on insecure sources of oil and exposure to arbitrary increases in the price of oil, we and our IEA partners are developing a comprehensive program of measures to conserve energy and increase energy investment and production. It is only by reducing consumption and increasing supply that consuming countries can end OPEC's [Organization of Petroleum Exporting Countries] monopoly power over the oil market.

A third element in our strategy is to have consumers and producers join in a dialogue on energy that will emphasize our common interests and encourage a more positive relationship. At the Paris preparatory conference last week, it was agreed to hold a Ministerial Conference on International Economic Cooperation in December. At that conference, there will be established commissions on energy, raw materials, development problems, and related financial questions. The oil producers and the industrialized and the developing-country consumers will pursue their dialogue in these commissions.

Commodities. Two problems are of particular concern to us in this area.

One is the need for sustained investment in raw material development, especially mineral development to meet rising world needs. Capital requirements are enormous, and technology is complex; but the unfavorable political environment facing private foreign investment in many countries threatens to discourage the flow of private capital and technology into natural resource development. While capacity is adequate now, future shortages could throttle world growth when the world economy moves out of recession. It is in the interest of the consuming, as well as the producing, countries that these resources be developed in ways that take account of the sensitivity of countries to ownership rights over their subsoil resources. We believe that an initiative by the World Bank and its affiliates, the IFC [International Finance Corporation] in particular, in concert with private investors, would be an excellent means of encouraging investments in raw materials in developing countries.

The second problem is the instability of commodity markets. A number of commodities are subject to wide swings in price because of cyclical variations in demand in industrialized countries and variations in supply because of weather. Such instability wastes resources, impedes the development efforts of the poor countries, and is destabilizing in the industrial countries, adding to inflationary pressures. High prices in periods of commodity shortage enter irreversibly into the wage and price structure of industrial countries and persist after the commodity market has turned around. Thus we are prepared to consider buffer stocks or supply management arrangements in cases where such arrangements are feasible and appropriate.

The problem of some commodity markets may not be price instability. In some cases prices may be stable but at levels which result in very low earnings for producers. Such situations might be due to chronic overproduction, to competition with synthetics, to foreign trade barriers, to inefficient production techniques, or to poor marketing practices. Thus we believe it is wrong to think solely in terms of price stabilization arrangements. We believe it is necessary to analyze commodities case by case to determine the root cause of the problem and to consider measures appropriate to the particular problem at hand. Such solutions might involve diversification, product improvement, better marketing techniques, or efforts to improve competitiveness through increased efficiency.

Finally, we believe it desirable to have available an effective international financial mechanism to deal with problems of unstable commodity earnings. Developing countries depend on the sale of primary commodities, especially agricultural commodities, for the bulk of their export earnings. When the market sags, their export earnings fall off, and their ability to maintain development imports is curtailed. We have proposed a new development security facility in the International Monetary Fund that would substantially increase the compensatory financing made available to developing countries which sustain shortfalls in their export earnings for reasons beyond their control.

Seeking Adequate and Secure Food Supplies

Food. Production shortfalls and high prices for food during the past three years have heightened international concern about assuring the production and availability of food supplies worldwide. Since the World Food Conference in November 1974, we have stressed the development of policy in three areas: (1) increasing food production in the developing countries; (2) providing a reasonable level of food aid until a major expansion of food production is brought about; and (3) establishing a world food security reserve system. The liberalization of agricultural trade, our fourth objective, is being pursued in the multilateral trade negotiations.

The widening disparity between food production in the developing countries and the requirements of their still rapidly growing population is of international concern. Developing countries cultivate more land but produce less food than the industrial countries. They have the greatest capacity for increased crop yields and output over the next several decades. We are encouraging high priority for LDC agricultural development in existing bilateral and multilateral aid programs and the mobilization of new financial resources for this purpose in a new institution—the International Fund for Agricultural Development.

Until a major expansion of LDC production is achieved, food aid will continue to be a necessary program both to meet emergency and disaster requirements and to reduce the financial burden of commercial imports for poor countries. We support a global target of 10 million tons of food aid annually and will make every effort to provide at least 4 million tons of that total on a continuing basis.

Over the past three years, poor harvests in some key countries and the resulting drawdowns of traditional grain stocks have sharpened the world's awareness of its vulnerability to food emergencies. We have taken the lead in seeking establishment of an effective international system of nationally held grain reserves to alleviate world shortages in bad crop years and reduce pressure on supply and markets. We believe reserves should be adequate in size, fairly allocated, and subject to agreed guidelines on release and acquisition. We are actively engaged in the process of negotiating such a reserve system.

Conclusion. I have tried to highlight policies and priorities in six major functional areas of our economic relations. One could, of course, look at foreign economic policy from a different perspective, the perspective of our relations with groups of countries—with the rich countries and the poor. On this subject I will be quite brief. One of the remarkable features of postwar life is the success we have had in cultivating the habit of consultation among the industrialized countries. Our relations have become more intimate, the process of collaboration more intense, the need for coordination of policy more evident. The summit meeting in November will be an occasion to strengthen this process. As to the poor countries, it is in our political and economic interest to try to make trade, aid, and investment normal cooperative elements in our relations with these countries rather than exercises in confrontation.

Secretary Kissinger in his speech to the U.N. special session on September 1 of this year laid out in detail the policies and programs that should guide us in this effort. It is a positive statement on which we can build. I commend the speech to you.

Department Discusses Arrangements With U.S.S.R. on Grain and Oil

Statement by Charles W. Robinson
Under Secretary for Economic Affairs[1]

I welcome the opportunity to appear here today to describe new arrangements with the Soviet Union on trade in grains which I believe will significantly benefit the United States.

U.S.S.R. production and trade in grain currently are the two most unstable elements in the world grain economy, accounting for about 80 percent of the annual fluctuation in world trade in wheat—the principal food grain. Variations in Soviet imports of grain have been particularly marked in this decade. In the 1971 crop year, the Soviet Union imported about 8 million metric tons of grain, of which 2.9 million tons were from the United States. In the following crop year, imports totaled about 21 million tons, of which 13.7 were from the United States.

It is this extreme variation which makes planning production for the Soviet market by U.S. farmers difficult and which affects the availability of supplies not only for our other foreign customers but also American consumers—not just homemakers but our meat producers as well. In view of this situation, the President announced on September 9 that he had directed me to explore a long-term agreement with the Soviet Union, which

[1] Made before the House Committee on International Relations on Oct. 28. The complete transcript of the hearings will be published by the committee and will be available from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20420.