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The Committee of 200

Max S. Baucus

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* "required information"
JULIA THOMAS, GERRY SCHULMAN, FRIENDS--THANK YOU ALL FOR INVITING ME TO JOIN YOU THIS EVENING.

I'D LIKE TO INTRODUCE MY WIFE, WANDA.

IF WANDA HADN'T MARRIED ME AND GOTTEN SO ACTIVELY INVOLVED IN POLITICS, IT'S LIKELY THAT SHE'D BE SITTING WITH YOU TONIGHT.

JEANNETTE RANKIN

I WOULD LIKE TO BEGIN BY TELLING YOU A LITTLE ABOUT MONTANA, MY HOME STATE.

MONTANA IS PRIMARILY A NATURAL RESOURCE AND FARMING STATE. WE PRODUCE COPPER, GOLD, SILVER, TIMBER, COAL, BEEF, AND WHEAT.

WE ALSO PRODUCE GREAT PUBLIC SERVANTS, LIKE MIKE MANSFIELD AND JEANNETTE RANKIN.
YOU ALL KNOW OF MIKE MANSFIELD, FORMERLY MAJORITY LEADER TO THE U.S. SENATE AND NOW OUR DISTINGUISHED AMBASSADOR TO JAPAN.

LET ME TELL YOU ABOUT JEANNETTE RANKIN.

SHE WAS ONE OF OUR NATION'S GUTSY PUBLIC SERVANTS.

IN 1917 SHE WAS THE FIRST WOMAN EVER ELECTED TO CONGRESS -- IN A YEAR WHEN WOMEN WERE NOT YET ALLOWED TO VOTE.

WHEN SHE GOT THERE SHE SPOKE HER MIND. SHE WAS THE ONLY MEMBER OF CONGRESS WHO VOTED AGAINST U.S. ENTRANCE INTO WORLD WAR I. SHE ALSO WAS THE ONLY MEMBER TO VOTE AGAINST U.S. ENTRANCE IN WORLD WAR II. BOTH TIMES SHE WAS NOTreelected.

AND YET, SHE WAS A COURAGEOUS, TOUGH MINDED, Devoted HER ENTIRE LIFE TO PUBLIC SERVICE, DISTINGUISHED HERSELF BY DEFENDING POLITICALLY UNPOPULAR IDEAS AND BY SPEAKING OUT IN TIMES OF CRISIS.
In a few weeks, hundreds of Montanans will be coming to Washington to honor Miss Rankin, when her statue is placed in the Capitol alongside that of other famous Americans.

The Trade Crisis

So why do I talk about Jeannette Rankin?

Because we need leaders like Jeannette Rankin, to help pull us out of our present crisis.

A crisis is not always accompanied by thunder and bombast.

Indeed, historian William Woodward has observed that "The turning points of our lives are not the great moments. The real crises are often concealed in occurrences so trivial in appearance that they pass unobserved."

The crisis we face today is one of international trade crisis, in international trade.
In a more competitive world, a nation's trade performance probably is the best indication of its fundamental economic strength.

If that's true, we're in trouble!

Let me explain why.

In the late 70s, America began running small trade deficits. But people assumed that they were temporary, and that they would naturally go away.

In the 80s, these deficits exploded. As the dollar rose and our recovery accelerated, we inhaled currency and goods from all over the world.

We became import junkies.

Look at the numbers. The trade deficit figures tell the story.

In 1980, the trade deficit was $32 billion, in 1981 it was $70 billion, in 1982, it grew to
$42 \text{Billion, in 1983, it was 898 Billion, and in 1984, it reached an all-time high of 123 Billion. That's a 300 percent increase over just a four-year period!}

That's not all. A few weeks ago America became a net debtor nation for the first time since Jeannette Rankin's first term in Congress in 1917. We owe all other countries more than they owe us. And our debt is compounding. In a few years we'll be another Brazil, Argentina or Mexico.

Some observers--the editors of the Wall Street Journal come to mind--say that the trade deficit is not a big problem, because it just means that we're exchanging Federal Reserve notes for foreign goods.

I think they're dead wrong.

The trade deficit is not just some abstract number for economists to debate.
First of all, the trade deficit represents a lost foothold in export markets.

You know better than I. Once you lose your marketing network and your overseas contacts, it takes painstaking effort to get them back. And in many cases you never get them back. The French or British or Japanese will have stepped in.

What's more, the trade deficit represents approximately three million U.S. jobs lost to overseas workers.

For example, Butte, Montana was once the copper mining capital of the world. Today, every mine is closed. Thirteen thousand workers have lost their jobs. And Butte's population has fallen from 100,000 near the turn of the century to 30,000 today.

Butte is not an isolated example. The same fate has befallen cities and towns all across the country, whether they produce steel, autos, or some other product. People are angry and they are
Frustrated. They were good employees, working hard, minding their own business. Suddenly, they don't have jobs.

The easiest answer, of course, is protectionism: build a wall around America; stop the imports.

Sounds simple.

Sounds good.

But protectionism obviously is not the answer.

Ultimately, it will shrink the world economy and leave everyone worse off—

That precisely what happened in 1930, when Congress passed the "Smoot-Hawley Tariff."

It started off slowly. President Hoover proposed what he called "limited changes in the tariff" to protect a few industries.
In an orgy of logrolling

One industry led to another. Everybody began offering amendments to protect his own state's products, in an orgy of logrolling. In the Senate, alone, the bill was amended 1253 times, increasing tariffs by more than 50%.

The consequences were swift and extreme.

--Within about a year, 26 foreign countries had enacted their own import restrictions.

--U.S. imports fell by 74%.

--U.S. exports fell by 75%.

--Total world trade fell from $35 billion to $12 billion.

--And U.S. GNP fell from $103 billion to $56 billion.
As one writer pointed out, "the world depression and the Smoot-Hawley tariff were inextricably bound up with each other."

We obviously can't afford to let this happen again.

If protectionism is not the answer, what is?

As with most problems, it's best that we look to first ourselves at home.

Number one, it's critical that we bring the U.S. dollar more in line with other countries' currencies!

Today the dollar is overvalued by about 30%. That means we are giving a 30% rebate to foreign importers and slapping a 30% tax on U.S. exporters.

It's no wonder that our trade deficit is exploding.
MOST OBSERVERS FEEL THAT THE SUREST AND SOUNDEST WAY TO BRING THE DOLLAR DOWN IS TO SLASH OUR FEDERAL BUDGET DEFICIT. I STRONGLY AGREE.

BUT THAT MEANS MAKING SOME PAINFUL CHOICES. FAVORITE SPENDING-CUT "WHIPPING BOYS" LIKE WELFARE CHEATS, FOOD STAMPS AND FOREIGN AID AREN'T ENOUGH. EVERYTHING MUST BE CUT, INCLUDING BUSINESS PROGRAMS LIKE THE EXPORT-IMPORT BANK. SOME TAX BREAKS MUST ALSO BE CUT BACK. WE'RE ALL IN THIS BOAT TOGETHER.

I CONSEQUENTLY HAVE ADVOCATED AN ACROSS-THE-BOARD SPENDING FREEZE ON ALL SPENDING PROGRAMS FOR A YEAR.

ALL PROGRAMS.

EVERYONE.

DEFENSE, DOMESTIC SPENDING, AND CONGRESS.

NO EXCEPTIONS.
No sacred cows.

No one off limits.

So long as it's evenhanded, and fair, it'll be accepted by the American people, a total and a good spending freeze is a first step to reducing the deficit and thus the overvalued U.S. dollar.

At the same time, the Federal Reserve system may have to slightly loosen the money supply, and intervene in coordination with other country central banks to sell dollars abroad to bring the dollar more in line.

There are of course other actions we must take here at home.

Our productivity growth has been declining. It's less than one-half that of Germany, France, and Japan.

We must reverse this trend.
WE MUST REVERSE THAT TENDENCY.

WE MUST REDEDICATE OURSELVES TO QUALITY:
QUALITY IN EDUCATION, QUALITY IN MANAGEMENT,
QUALITY IN OUR PRODUCTS, AND QUALITY IN GOVERNMENT.

AND WE MUST WORK TOGETHER. FOR AS BENJAMIN FRANKLIN ONCE SAID: EITHER WE HANG TOGETHER OR WE HANG SEPARATELY.

BUT WHAT DO WE DO ABOUT OTHER COUNTRIES WHO TAKE ADVANTAGE OF US? IF PROTECTIONISM IS DETRIMENTAL TO OUR ECONOMY, AND IF BRINGING DOWN THE DOLLAR IS INSUFFICIENT TO STEM THE IMPORT TIDE, IS THERE ANYTHING WE CAN DO ABOUT OTHER COUNTRIES TRADE PRACTICES?

LET ME TURN NOW TO TRADE POLICY.

LIKE MOST AMERICANS, I BELIEVE IN FREE TRADE. I WISH EVERY COUNTRY PRACTICED IT.

BUT LET'S BE REALISTIC. OTHER COUNTRIES DON'T PRACTICE FREE TRADE. SO, WHILE
WE'VE BEEN TRYING TO SET A GOOD EXAMPLE, THEY'VE BEEN MAKING SALES.

THE CASE OF JAPAN

LOOK AT THE CASE OF JAPAN.

JAPAN HAS USED THE OPEN POST-WAR TRADING SYSTEM TO SELL ITS CARS, TELEVISIONS, COMPUTERS, STEEL AND OTHER FINE PRODUCTS THROUGHOUT THE WORLD. IN FACT, IT'S NO EXAGGERATION TO SAY THAT JAPAN HAS BENEFITED MORE FROM THE OPEN TRADING SYSTEM THAN ANY OTHER COUNTRY.

AT THE SAME TIME, JAPAN STUBBORNLY PROTECTS ITS HOME MARKET.

SOMETIMES, IT'S TO PROTECT INEFFICIENT BUT POLITICALLY POWERFUL GROUPS LIKE THE BEEF PRODUCERS OR THE SAWMILL OPERATORS.

OTHER TIMES, IT'S TO INCUBATE "SUNRISE"
INDUSTRIES LIKE THE TELECOMMUNICATIONS OR SATELLITE INDUSTRIES UNTIL THEY CAN COMPETE ON THEIR OWN.

IN THE FACE OF SUCH PROTECTIONISM, WE HAVE NO CHOICE. WE CAN NO LONGER ALLOW THEM TO TAKE ADVANTAGE OF US.

THOMAS JEFFERSON PUT IT WELL. WHEN HE WAS SECRETARY OF STATE, HE WROTE TO CONGRESS THAT UNIVERSAL FREE TRADE WAS THE BEST POSSIBLE CONDITION. BUT, HE CONTINUED,

SHOULD ANY NATION, CONTRARY TO OUR WISHES, SUPPOSE IT MAY BETTER FIND ITS ADVANTAGE BY CONTINUING ITS SYSTEM OF PROHIBITIONS, DUTIES, AND REGULATION, IT BEHOOVES US TO PROTECT OUR CITIZENS, THEIR COMMERCE AND NAVIGATION, BY COUNTER PROHIBITIONS, DUTIES, AND REGULATIONS. \( \text{FREE COMMERCE AND NAVIGATION ARE NOT TO BE GIVEN IN EXCHANGE FOR RESTRICTIONS AND VEXATIONS.} \)
Well we have given Japan free commerce.

And, Japan has responded with restrictions and vexations.

Obviously, it's time to stop that.

The Danforth-Baucus Resolution

Last week, the Finance Committee approved a bill that Senator Danforth and I introduced. Simply put, this bill requires the President to retaliate against Japanese imports unless Japan makes modest market-opening measures over the next few months. Japan has the opportunity to prevent our retaliation, if Japan provides greater access.

This morning, the Wall Street Journal editorial described our bill as dangerous protectionist legislation.

The Journal missed the point.
This is not some smokescreen for domestic content or any other set of import restrictions. Rather, it is contingent retaliation designed to force Japan to open its markets.

Nothing more, nothing less.

Other Countries

Japan, however, is not our only problem.

We need to drive tougher bargains with all our trading partners: Canada, the EC, the Newly Industrialized Countries.

We need to use carrots and we need to use sticks to force them to reduce their barriers.

GATT

And we can't stop there. We also must tighten the rules governing the multilateral trading system, that is, the GATT.
sometimes I think we gave GATT the wrong name.

Instead of calling it the "General Agreement on Trade and Tariffs," we should have called it the "Gentlemen's Agreement to Talk and Talk."

That's all that seems to happen over here in Geneva: talk.

In part that's because GATT is riddled with loopholes:

- The agricultural subsidy provision is feeble;
- The dispute resolution mechanism is slow and unwieldy;
- Trade in services isn't covered at all.

The bigger problem with GATT is that it hasn't kept up with world trade. In fact, GATT no longer covers much trade. When GATT was formed in
THE 1940's, ITS RULES COVERED ABOUT 50% OF WORLD TRADE. BUT WITH THE ADVANCE OF OTHER FORMS OF TRADE -- PARTICULARLY SERVICES AND INVESTMENT -- GATT NOW COVERS ONLY ABOUT 10% OF WORLD TRADE.

IT'S CRITICAL THAT WE HOLD A NEW ROUND OF MULTILATERAL NEGOTIATIONS, TO OVERHAUL GATT TO BRING IT UP TO DATE IN TODAY'S WORLD. OTHERWISE IT WILL BE MORE DIFFICULT TO RESIST PROTECTIONIST PRESSURES. AND, AS A CONSEQUENCE WE WILL SLIP FURTHER INTO WORLDWIDE ECONOMIC ANARCHY.

WHAT THEN CAN YOU DO ABOUT ALL OF THIS?

A LOT. AS WE WORK TO BRING OUR ECONOMIC HOUSE IN ORDER, AS WE WORK TO BRING DOWN BARRIERS TO TRADE, AND AS WE RESOLVE TO STRENGTHEN THE WORLD'S TRADING RULES, I HOPE THAT YOU WILL JOIN.

YOUR EFFORT, AS WELL AS THAT OF OTHER LEADERS IN OUR NATION'S COMMUNITIES, WILL ESSENTIALLY DETERMINE WHETHER WE MEET THE WORLD ECONOMIC CHALLENGE, AND GROW TO PROSPER, OR WHETHER WE SLIDE INTO HISTORY AS A ONCE GREAT COUNTRY... THAT'S PAST ITS PRIME...
Congress and the President, of course, must provide the necessary leadership. But in our form of government, any sense of national commitment ultimately resides with people like you.

In fact, your particular effort is more important than you might think. Most members of Congress are professional politicians. They have virtually no business experience. Only one Presidential Cabinet secretary is a businessman.

You, on the other hand, have direct hands on business experience. You aren't ivory tower theorists. You are basic, practical, businesswomen. You know what works and what doesn't work. That's why you are so important.

Your involvement is critical. Rededicate yourself to excellence, to quality — so that "Made in USA" is again a badge of honor. Find ways to encourage your congressional delegations to more effectively address these dangerous economic problems. You have a lot more persuasive power than you might think.
JEANNETTE RANKIN, THAT SOLE WOMAN ELECTED TO
Congress in 1917, was that kind of person. She
provoked, she questioned, she prodded. She im-
proved the quality of our lives. She inspired us.
She wasn't afraid of the future. She made her
mark.

IN THIS ROOM

Not all of us, of course, can be, or indeed
want to be, JEANNETTE RANKIN. Yet, certainly all
of us can, and should, have her constant dedica-
tion to excellence and commitment so that our
businesses, our communities and our nation proudly
grow and prosper.

THANK YOU VERY MUCH.