

OFFICIAL TRANSCRIPT

MW

ORIGINAL

COMMITTEE ON FINANCE

UNITED STATES SENATE

EXECUTIVE SESSION

WASHINGTON, D. C.

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ALDERSON  REPORTING

400 Virginia Ave., S.W. Washington, D. C. 20024

1 EXECUTIVE SESSION

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WEDNESDAY, DECEMBER 2, 1981

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United States Senate,

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The Committee on Finance

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Washington, D. C.

8 The committee reconvened, pursuant to adjournment, at
9 9:10 a.m., in room 2221, Dirksen Senate Office Building,
10 Hon. Robert Dole (chairman) presiding.

11 Present: Senators Dole, Packwood, Bentsen, Heinz, and
12 Danforth.

13 The Chairman: We have three resolutions that I would
14 like to report today. One resolution by Senator Bentsen,
15 which I think we can act on. I know of no objection to it.

16 Senator Bentsen: I would appreciate that, Mr.
17 Chairman, if we could, because I have a conflict with a
18 markup in another committee, and this is a very
19 straightforward resolution.

20 There have been some proposals, Mr. Chairman, saying
21 that we should do away with the deductibility of home
22 mortgages, and that proposal keeps surfacing. It is not
23 unique just to this Administration, but we see some of the
24 proposals coming out of staff, and we had some of those
25 proposals under the last Administration from staff.

1 One of the arguments they make is that we ought to do
2 it because a home is not a productive investment, it does
3 not add to the productivity of the country, or that we are
4 spending too much on homes. Of all the major industrialized
5 nations of the West, we are putting a small percentage of
6 our GNP into residential housing than any other nation
7 except England.

8 The way they start out on one of these things is to
9 nibble their way through it. Usually they will say,
10 "non-deductibility on interest on a vacation home, or a
11 second home." Then then they will put some amount of money
12 on that, and then they will keep bringing it on down until
13 they do away with it. The last thing the housing industry
14 today needs is some such provisions that knocks out
15 deductibility of interest on home mortgages.

16 Housing starts are at the lowest level in some areas in
17 20 years, and I really think that it would be a very serious
18 mistake. I would urge this committee's passage of it.

19 The Chairman: Senator Packwood do you have any
20 objection to that resolution?

21 Senator Packwood: Not only no objection, I am very
22 favorably impressed with it coming from a state that
23 produces much of the wood that goes into homes.

24 The Chairman: We are all sympathetic. Again, without
25 objection, we will report the resolution. We will pole the

1 members of the committee. I know of no objection. In fact,
2 we have checked around to see if there were any. I would
3 hope that we could pass this quickly, and there are a few
4 signs that we may start building homes again in the next few
5 months, and this would be a good signal to homebuilders and
6 realtors who are concerned about this.

7 Senator Packwood has one more matter, if Senator
8 Bentsen would wait one more minute.

9 Senator Packwood: This is very simple. It does not
10 even require us going to the resolution route. Under the
11 law we have the right to request of the International Trade
12 Commission that they do studies for this committee. I along
13 with several other members of the committee are requesting
14 that the committee act favorably on our request to ask the
15 International Trade Commission to do a study of Canadian
16 softwood timber production and imports into the United
17 States, and its effect on our markets and housing, and
18 what-not.

19 Senator Bentsen: Mr. Chairman, I am very happy to
20 support the Senator's proposal. It is a good one.

21 The Chairman: Without objection, that request will be
22 made.

23 Finally, Senator Danforth yesterday conducted what I
24 thought were very good hearings on Japanese imports. He has
25 proposed that we adopt a resolution which we send with the

1 Agency Task Force which will be going to Japan next week. I
2 understand the staff has looked at the resolution, and there
3 is no objection to the resolution.

4 We believe that it might be helpful to Ambassador
5 MacDonald and others with whom we were fairly firm with
6 yesterday on the need for better treatment of our exports in
7 the Japanese markets. So I would hope that we might,
8 without objection, pass this resolution of Senator Danforth
9 to the floor and get action.

10 Senator Bentsen: Mr. Chairman, I will be glad to
11 support it. I want to be a co-sponsor of it, and I have
12 some remarks that I would like to put in the record with
13 it.

14 The Chairman: Without objection.

15 [Statement of Senator Bentsen follows:]

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STATEMENT OF THE HONORABLE LLOYD M. BENTSEN
CONCERNING A PROPOSED RESOLUTION OF THE SENATE
COMMITTEE ON FINANCE ON ACCESS TO THE MARKETS OF JAPAN

MR. CHAIRMAN:

FOR ALMOST THREE YEARS NOW I HAVE BEEN A CONSISTENT AND OUTSPOKEN CRITIC OF JAPANESE TRADING PRACTICES. I HAVE POINTED OUT TIME AND AGAIN THAT NO NATION IS MORE DEPENDENT THAN JAPAN ON AN OPEN, EFFICIENT INTERNATIONAL SYSTEM. NO NATION BENEFITS MORE THAN JAPAN FROM INTERNATIONAL TRADE. NO NATION HAS TAKEN GREATER ADVANTAGE OF THE ACCESS WE OFFER TO OUR OWN DOMESTIC MARKETS.

JAPANESE SUCCESS IN THE WORLD OF TRADE IS EVIDENT FROM THE FACT THAT WE ARE LIKELY TO HAVE A \$15 BILLION BALANCE OF TRADE DEFICIT WITH JAPAN THIS YEAR. MR. CHAIRMAN, THAT IS MORE MONEY THAN JAPAN SPENDS ON DEFENSE.

WHILE THE JAPANESE ARE QUICK TO TAKE ADVANTAGE OF FREER TRADE OPPORTUNITIES, THEY ARE STRANGELY RELUCTANT TO ACCEPT EXPORTS FROM OTHER NATIONS. THEY HAVE DEMONSTRATED A LONG-STANDING AND ALARMING RELUCTANCE TO OPEN THEIR MARKETS TO INTERNATIONAL COMPETITION.

WE HAVE RAISED THIS ISSUE OF EQUAL MARKET ACCESS TIME AND AGAIN WITH THE JAPANESE, TO NO AVAIL. JAPAN REMAINS A CLOSED ECONOMY.

IT DOES NOT MATTER WHETHER OUR TRADE NEGOTIATOR IS BOB STRAUSS, REUBIN ASKEW, OR BILL BROCK. THE JAPANESE ALWAYS SEEM TO REGARD THE BEGINNING OF DISCUSSIONS AS THE END OF THE EFFORT TO SOLVE THE PROBLEM. THEY SEE NEGOTIATIONS AS A WAY OF BURYING A PROBLEM WITHOUT SOLVING IT.

JUST LOOK AT WHAT HAS BEEN GOING ON FOR THE PAST FIVE YEARS. BACK IN 1976 WE HAD A \$5.3 BILLION BALANCE OF TRADE DEFICIT WITH JAPAN. WE WERE ALARMED. WE SOUGHT AND RECEIVED ASSURANCES THE JAPANESE WOULD ACT TO REDRESS THE SITUATION. BY 1977 THE DEFICIT ROSE TO \$8 BILLION AND OUR PROTESTS RESULTED IN THE STRAUSS-USHIBA AGREEMENT. THE NEXT YEAR THE DEFICIT ROSE TO \$12 BILLION AND IT BECAME APPARENT WE WERE MAKING PROGRESS BACKWARDS, ALL ASSURANCES TO THE CONTRARY.

LAST YEAR, CONFRONTED WITH A \$10 BILLION DEFICIT, PROTECTIONIST PRESSURES WERE ALMOST OUT OF CONTROL IN CONGRESS. WE TRIED TO GET JAPAN FOCUSED ON THE PROBLEM AND AS A FIRST STEP THEY AGREED TO INCREASE PURCHASES OF AUTO COMPONENTS TO THE SKIMPY LEVEL OF \$300 MILLION PER YEAR. THAT WAS HAILED AS A GREAT VICTORY, BUT NOW THE JAPANESE CAN'T SEEM TO REMEMBER ANY SUCH COMMITMENT OR FEEL THEY WILL HAVE PROBLEMS MEETING THE TARGETS.

SO TODAY WE HAVE A \$12 BILLION TRADE DEFICIT, WHICH THREATENS TO INCREASE TO \$25 BILLION IN JUST A FEW YEARS. WE HAVE HAD ADMINISTRATION WITNESSES APPEAR BEFORE THIS COMMITTEE AND TESTIFY THAT ONE OF THE PRIMARY REASONS FOR THIS GLARING IMBALANCE IN TRADE IS JAPANESE PROTECTIONIST POLICIES.

JAPAN DOES NOT USE IMPORT DUTIES TO OBSTRUCT IMPORTS, IT USES SUBTLE RULES OF HEALTH, SAFETY, AND WELFARE AND QUOTAS TO EXCLUDE POTENTIAL IMPORTS. THESE SO-CALLED NON-TARIFF BARRIERS ARE LIMITED ONLY BY THE HUMAN IMAGINATION. JUST THOSE INVOLVING OFFICIAL GOVERNMENT ACTIONS OCCUPY PAGES OF DESCRIPTIONS, FROM QUOTAS ON IMPORTS OF MEAT, MILK, FISH, SHELL FISH, CITRUS, TOMATO CATSUP, GRAPE SYRUP, WHEAT AND RICE FLOUR, OTHER GRAINS, BEANS, LEATHER, AND COAL, TO ANIMAL QUARANTINE REQUIREMENTS AND GOVERNMENT PROCUREMENT POLICIES. I NOTICED THE OTHER DAY A REPORT FROM THE TRADE REPRESENTATIVE'S OFFICE ABOUT A PRODUCT WHICH IS NOT PARTICULARLY IMPORTANT TO THE STATE OF TEXAS, FRESH CHERRIES. PLANT QUARANTINE REQUIREMENTS IN JAPAN REQUIRE INSPECTION OF CHERRIES BEFORE THEY ARE EXPORTED FROM THE UNITED STATES TO JAPAN, YET THE GOVERNMENT OF JAPAN STATIONS ONLY ONE INSPECTOR IN THE UNITED STATES FOR THIS PURPOSE. THIS SINGLE INSPECTOR IS NOT CAPABLE OF HANDLING TOTAL POTENTIAL VOLUMES OF U.S. EXPORTS OF THESE PRODUCTS. ANOTHER CASE CONCERNS ALUMINUM BASEBALL BATS. BASEBALL IS VERY POPULAR IN JAPAN, AND AMERICAN COMPANIES MAKE ALUMINUM BATS AT ONE-SIXTH THE PRICE OF JAPANESE COMPANIES, YET THE ONLY COMPANIES WITH A "STAMP OF APPROVAL" TO SELL ALUMINUM BATS IN JAPAN ARE SIX JAPANESE COMPANIES.

I THINK IT IS INTERESTING TO NOTE THAT ONE PRIMARY WITNESS WHO APPEARED BEFORE US IS SOMETHING OF A HERO IN U.S.-JAPANESE TRADE. AFTER FIVE YEARS OF EFFORT AND MILLIONS OF DOLLARS SPENT ON PRODUCT DEVELOPMENT, LIONEL OHLMER, THE PRESENT UNDER SECRETARY OF COMMERCE FOR INTERNATIONAL TRADE, WAS ABLE TO SELL POCKET PAGERS IN LIMITED NUMBERS ON THE JAPANESE MARKET. MR. CHAIRMAN, BY SUCH VICTORIES WE SHALL BE UNDONE.

I HAVE ALWAYS MAINTAINED THAT THE BEST, THE MOST PREFERABLE WAY TO CORRECT THE IMBALANCE IN OUR TRADE WITH JAPAN IS NOT A RESORT TO THE STERILE POLICIES OF PROTECTIONISM, BUT FOR THE JAPANESE TO PURCHASE MORE AMERICAN GOODS. FOR THE JAPANESE TO OPEN THEIR MARKETS.

NO COUNTRY HAS A GREATER STAKE IN THE FREE TRADE SYSTEM THAN JAPAN. IT IS THE ONLY INDUSTRIALIZED ECONOMY WITH A STRONG DOMESTIC MARKET AND HIGH SAVINGS RATES (WHICH MAKE FOR PLENTY OF CAPITAL FOR INVESTMENT PURPOSES -- JAPAN'S RATIO OF GROSS FIXED CAPITAL FORMATION TO GNP IN 1980 WAS ALMOST DOUBLE THAT AVAILABLE IN THE UNITED STATES). YET JAPAN IS NOT BUILDING THE FREE TRADE SYSTEM, IT IS JUST TAKING ADVANTAGE OF IT. IT IS STILL BY FAR THE MOST CLOSED ECONOMY OF THE INDUSTRIALIZED WORLD. JAPAN CANNOT EXPECT COUNTRIES AROUND THE WORLD AND PARTICULARLY INDUSTRIALIZED COUNTRIES TO RESIST INTERNAL PRESSURES FOR PROTECTIONISM IF JAPAN ITSELF DOES NOT EXEMPLIFY THE BENEFITS OF INTERNATIONAL TRADE BY OPENING ITS OWN MARKETS. I WOULD LIKE TO SEE OUR GOVERNMENT MAKE IT CLEAR TO JAPAN THAT THE HEALTH OF THE FREE TRADE SYSTEM DEPENDS ON JAPAN OPENING UP WHAT HAS BEEN CALLED "THE CLAM-LIKE ECONOMIC SYSTEM OF JAPAN." HOPEFULLY THIS RESOLUTION WILL CLARIFY FOR THE JAPANESE WHAT THE PROBLEM IS.

1 Senator Packwood: I would like to be on the
2 resolution.

3 The Chairman: Senator Heinz.

4 Senator Heinz: Mr. Chairman, I just want to say that I
5 strongly the Danforth-Bentsen Resolution, and the Bentsen
6 resolution on mortgages interest. I ask that I be a
7 co-sponsor of that resolution. I think that we clearly need
8 to take action in both of these areas. We have to insist on
9 reciprocity.

10 Clearly, with respect to Senator Bentsen's resolution,
11 anybody who proceeds to undercut the home mortgage interest
12 deduction would only be penalizing the poor people who can't
13 get loans for other purposes. I strongly support those
14 efforts.

15 Thank you.

16 [Senator Danforth's Statement follows:]

17 The Chairman: The committee stands adjourned.

18 [Whereupon, at 9:15 a.m., the committee adjourned, to
19 reconvene at the call of the Chair.]

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STATEMENT OF SENATOR JOHN C. DANFORTH

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0 During the course of yesterday's Trade Subcommittee hearing on the U.S. automobile situation, one central theme kept emerging with regard to our overall trade relations with Japan. That theme-- the frustration American exporters face when they try to penetrate the Japanese market--characterizes the lack of reciprocal market access we have in Japan.

I number myself among those who believe in an international trading system based on a free and fair exchange of goods and services. But free trade practiced by one side of a bilateral trading relationship and not the other is like one hand clapping. Clearly, this is the case with our trade relations with Japan.

0 In one year, the U.S. trade deficit with Japan is likely to jump an incredible 50 percent. From an appalling \$10 billion bilateral deficit in 1980, we are now facing a deficit upwards of \$15 billion in 1981. Moreover, if the trend in our trade relationship since 1970 continues, the Commerce Department has projected a bilateral trade deficit with Japan of \$25 billion in 1985-- moving as high as \$50 billion in 1990.

The remarkable nature of Japan's post-war economic growth cannot be disputed. But this "economic miracle" has, in large measure, come about through the generosity of open American markets and, to a significant degree, at the expense of American products that were at one time more competitive.

0 The Japanese approach to trade policy combines a successful "infant industry" import strategy, with an export program that has concentrated on targeting and protecting high-growth and high-value added industries.