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The Scissors and Shears Case
Trade Expansion Act of 1962
Statement of B.C. Deuschle
in Hearings Before the
Eighty-Seventh Congress, Second Session
Committee on Ways and Means, House of Representatives

Background Information:

In order to understand this case, there are some definitions that you need to have.

A *duty* or a *tariff* is a tax on imported goods, which raises their price inside the U.S. and allows domestic firms to compete with imports.

The *escape clause* is included in all tariff treaties. It permits tariff reductions for a specific industry to be canceled if they can be shown to cause injury to that industry. Escape clause exceptions are provided by the International Trade Commission, a part of the executive branch of the government, following an investigation.

The *Trade Expansion Act of 1962 (TEA)*. This was a new comprehensive trade bill introduced as a response to increasingly protectionist attitudes in Congress. The act had several important components:

- Granted the President the power to negotiate up to 50% reductions in tariffs
- Placed textiles in a separate category, later resulting in the establishment of the Multifiber Agreement
- Allowed tariff negotiations in an *across the board* framework, rather than *product by product*.
- Introduced a *Trade Adjustment Assistance* program which provided compensation for firms and workers who were injured by imports, in the form of loas, extended unemployment benefits and other benefits.

At the time of the statement made in 1962, the act had not yet been passed, and is referred to as HR 9900, which is the name of the bill in Congress which later became law.

Questions for Study

1. Consider passages B and C (as marked in statement). Do they constitute a valid argument for keeping scissor production going in the U.S.? Why or why not?

2. Consider passage A. If an industry survives *because* of a tariff, are its workers wards of the state? Would all of the workers in the scissor industry be unemployed and worse off forever if the industry ceased to exist?

3. Consider passage E. What does it mean if the scissor industry cannot afford to pay wage increases granted by other industries? In particular, what implications does it have for your answer to the previous question?

4. Consider passage D. Mr. Deuschle describes it as a disaster. What does this information tell you about the relative strengths and weaknesses of U.S. and foreign economies?

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Mr. Keogh (presiding): You are recognized, Mr. Deuschle.

Mr. Deuschle: Thank you, Mr. Chairman. Mr. Chairman and members of the Committee on Ways and Means, my name is B.C. Deuschle.

I am vice president of the Acme Shear Co., located in Bridgeport, Conn. I appear before this committee as president of the Shears, Scissors & Manicure Implement Manufacturers Association, the only national trade association of domestic manufacturers of scissors and shears.

The scissors and shears industry is a distinct industry and should not be confused with the larger industry and flatware industries.

The association respectfully wishes to record with this committee its strong opposition to H.R. 9900 in its present form. This bill could destroy industries such as ours and add to the unemployment problem.

During the past 15 years representatives of our association have appeared before this committee and other congressional committees, the Committee for Reciprocity Information and the Tariff Commission, to present our views on the impact of imported scissors and shears on our domestic industry.

We have never requested or suggested that a complete embargo be placed on the import of scissors and shears. All tha we have asked for and desire is a fair competitive opportunity, not an advantage.

To date we have not obtained relief in any form.

We believe that H.R. 9900 would make matters worse. HR 9900 provides for new Presidential authority to reduce or eliminate duties. We realize that title III of H.R. 9900 provides for adjustment assistance, but the criteria are general and too much is left to the discretion of the President in granting assistance.

Terms such as "significant," "prolonged," and "reasonable," used in title III to determine if a firm or an industry should receive assistance are subject to many interpretations.

Injury or threat of injury as it is written into our present escape clause cannot be properly defined. When 42 manufacturers out of 50 cease manufacturing and go out of business within 12 years as a direct or indirect result of excessive imports, and the Tariff Commission as well as the President decide that there is no injury or threat of injury, something should be done.

Imports of shears and scissors valued over $1.75 per dozen import value have reached the proportion that they represent 95% of domestic production of scissors and shears in this category.

This category represents 75 percent of total sales of all scissors and shears in the domestic market. Would you honestly say, under these circumstances, that there is no injury or threat of injury to our industry?

H.R. 9900 provides for the repeal of section 7 of the trade Agreements Extension Act of 1951 as amended, the so-called escape clause. The escape clause must not be repealed.

It must be retained and strengthened by amendments to establish define criteria to guide the Tariff Commission in the determination of injury or threat thereof. And, the Tariff Commission findings of fact in escape clause cases have got to be binding upon the President. If not, we are finished.

....

Industries such as ours are supposed to be able to obtain relief from injury or threatened injury under the provisions of the so-called escape clause.

The domestic scissor and shear industry has had two escape clause investigations, one in 1953 and again in 1958. Neither of these investigations resulted in any relief for our industry.

Members of the association concluded after the 1958 investigation that it would be futile to request a third investigation until Congress amended the escape clause to restrict the Tariff Commission's interpretative powers and the President's unlimited discretion over the Commission's recommendations.

Now we find ourselves faced with H.R. 9900, which provides for the repeal of the escape clause, the only hope for relief that import ravaged industries have available.

The Secretary of Commerce in his presentation to this committee passed over industries such as ours by stating that they accounted for only a minute part of our gross national product.

We realize that the domestic scissor and shear industry with its 1,000 plus employees accounts for only a fraction of 1 percent of the gross national product, but we see this as no justification for letting the industry be completely destroyed by imports produced with low cost labor.

Passage A:

The workers in the domestic scissor and shear industry do not want to become wards of the State; they want to use their skills, which have taken years to develop. These workers are not interested in retraining; over many years they have developed a skill they are proud of and want to continue the work they are happy doing.

If the scissors and shears imported during 1961 had been manufactured in the United States, it would have provided over 2 million man-hours of factory work, or full-time employment for over 1,000 American employees.

Domestic manufacturers of scissors and shears have modernized and automated their operations in an effort to meet foreign competition. But foreign manufacturers also have modern equipment and with their lower wage rates are underselling domestic firms in the U.S. market at today's rate of duty.

H.R. 9900 would give the President unrestricted authority to reduce duties and thereby further reduce the cost of imported scissors and shears in our market. Under the provisions of this bill, scissors and shears would be buried in a category with many other items and the duty cut 50 percent.

This would mean a reduction of at least 20 cents per pair at the retail level for scissors now being retailed at $1 to $1.29 per pair.

If this is permitted, we do not need a crystal ball to see the results. There are only eight domestic firms now remaining of the 50 operating in the United States prior to the 50 percent reduction in import duty during 1950-51.

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Passage B

These few remaining manufacturers would be forced to close their doors and discharge their employees. The United States would then become wholly dependent on imported scissors and shears.

We cannot understand how it could be in the national interest to permit such a loss. We would lose the skills of the employees and management of the industry as well as the capital investment in production equipment. In the event of a national emergency and imports cutoff, the United States would be without a source of scissors and shears, basic tools for many industries and trades essential to our defense.

The scissor and shear industry is one of the oldest in the world. The skill was brought to the United States from Germany at a time when the United States needed new industry and a scissor and shear industry in particular.

Passage C

Scissors and shears of all sizes and types are used in every school, retail establishment, office, factory, hospital, and home in the United States. Scissors cannot be classified as a luxury, gimmick, or novelty.

Scissors are used to separate us from our mothers at birth; to cut our toenails; to trim the leather in our shoes; to cut and trim the materials used in every piece of clothing that we wear.

They are used to cut our fingernails, to trim our moustaches, the hair in our ears and nose, and to cut the hair on our heads -- even down to the end of the road when our best suit or dress is cut down the back so that the undertaker can dress us for the last ride. Scissors are truly used from birth to death. They are essential to our health, education and general welfare.

I ask you, gentlemen, is this an industry that should be permitted to become extinct in this country?

We request that the committee not grant the President the authority he has requested in H.R. 9900, but that the bill be amended.

We urge that Congress retain its power over duties as is provided in section 8 of the Constitution.

We request that the escape clause be retained, strengthened, and clearly defined as to what will constitute injury or threat of injury...

I would like to thank the chairman and the members of the committee for the time afforded me to present this statement.

Mr. Keogh: We would like to express our appreciation, Mr. Deuschle, for your being here to give us the views of your industry. Are there any questions? Mr. Knox.

Mr. Knox: Thank you, Mr. Chairman. I should like to compliment you, Mr. Deuschle, in bringing your plight to the committee, which affects the small industry which you are a part of.

In my opinion, it is the small industries of the Nation which have made us as great as we are today. By elimination, of course, we may come into the area of giants instead of the small industry which has provided many

small communities with increasing their respective economy. Mr. Deuschle, what is the present duty on shears and scissors that are imported?
Deuschle: The principal category is $1.75 and over, which, as I stated, represents about 75 percent of total domestic scissor and shear consumption. The duty in that category is 10 cents per pair, plus 22.5 percent ad valorem. This was exactly double that in 1950, before the 50 percent reduction.
Knox: May I ask you, then, do you have the percentage rate on the cost? You said about 10 percent.
Deuschle: Approximately 45 percent.
Knox: You would be subject, then, of course, under the provisions of the act, if it were so determined, that the duty could be cut by 50 percent?
Deuschle: That is correct.
Knox: Then, in your opinion, and in many other people's opinion, the industry, itself, would be unable to operate in competition if the duty was cut by 50 percent?
Deuschle: Yes, sir. You see, in any commodity with a high labor content, foreign competition definitely has the edge.

In Germany, where, incidentally, our own company has a financial interest and we are well aware of what is going on, wages there in our industry are approximately 50 percent or less of ours.

Passage D:

The labor content in our product is very high. In comparing import dollars with export dollars, the economic imbalance comes in the amount of labor content of the product, not in the dollars.

If we export wheat, which has low labor content, cigarettes, which have low labor content, and we import high labor content products, we create an imbalance that cannot be compared in terms of dollars and cents.

Knox: I share your great concern in this problem and sure you that the paper which you have submitted to the committee this morning should be helpful in making our final determinations.
Deuschle: Thank you very much, sir.
Keogh: Mr. Betts, of Ohio.
Betts: I was interested in the last page where you list 42 companies that have gone out of business since 1950; is that correct?
Deuschle: Yes, sir.
Betts: Four of those are from Fremont, Ohio. That is close to where I live. Do you or your organization have any figures as to the number of people that were employed at those four plants?

I would be interested to know.
Deuschle: No, I am afraid we do not. Whatever figures have been made available were made available either by the Commerce Department or by private research organizations who would not divulge knowledge of the individual figures of any company.

The only figures that we have been able to have made available to us are the total figures.
Betts: Those four companies went out of business after the reduction, the 50 percent reduction, in tariff; is that correct?
Deuschle: Yes sir, they did. That was Case-Smiley Co. of Fremont, Hershey & Metroloy, of Canton, Ohio.
Betts: Does your industry enjoy any export business?
Deuschle: Our export business was quite substantial at one time, but we lost it back in 1950 or 1951. It diminished to practically nothing. I have had some conversations with people in the Commerce Department who claim that there was $1,400,000 worth of cutlery exported from this country, but on investigation we find that the bulk of it is made up of commodities other than scissors and shears.
Betts: Mr. Knox asked you about our tariffs on imports. How does it compare with the tariff of other countries on these items?
Deuschle: I did not quite hear you.
Betts: How does our tariff on these products compare with the tariff that other countries have on these products?
Deuschle: On scissors and shears?
Betts: Yes.
Deuschle: To tell you the truth, I have never checked them because all of the foreign countries could manufacture scissors and shears so much cheaper than we could, and they were all exporting them into this country.

I did not find any need to check their duty restrictions or monetary restrictions or quota restrictions, whatever they might have. There is no need for it. The foreign countries, as I learned on my last trip to France, England, and Italy, feel that they are going to protect their industries, and that is the purpose of the Common

Market, to protect their own industries and set up external tariffs to keep damaging competition out of those countries.

It is one of the principal reasons for the Economic Community of Europe. They feel that the time has to come when our wage rates and their wage rates are comparable and that we have a common currency.

....

Betts: Are most of the imports that you mentioned from the Common Market countries?
Deuschle: The imports in our commodities are largely from Germany, Italy and Japan. More recently Japan has been climbing and so has Italy. At one time not too long ago Germany was the principal exporter.

They are still leading. Germany is still leading with Italy as the runner-up and Japan follows.
Betts: Like Mr. Knox, I was interested in your statement because I think you may have told a story about what might happen to small business if this bill is enacted.
Deuschle: There is no question about it. I would like to give you one case of a scissors and shears manufacturer in New Jersey that I visited 2 years ago that is no longer in business.

I talked to an old German chap about in his sixties or seventies who came here many years ago because this country needed his skill -- his scissor and shear making skill.

He came here, he worked hard, he built himself a little factory. He had a sizable mortgage. He raised a family. He built a business manufacturing scissors and shears to the point where he had 50 to 60 employees. The day that I visited him, he had himself, his wife and two sons working. They were working on grinding wheels and his wife was packaging a few pair of scissors. With tears in his eyes he asked me what he was to do.

He said: "I came to this country because they needed me. It was the country of opportunity. After all these years, I am now an old man. I trained my boys, I brought them along in this industry, and now we reach the point where this country does not want me anymore. What do you think I can do? Where can I go?"

Unfortunately, in the period of 2 years since I last saw him, he died, so we do not have a problem with him anymore.
Betts: That is all, Mr. Chairman.
Chairman: Are there any further questions?
Keogh: Mr. Deuschle, I would like to ask you briefly this question: You indicated in your direct testimony or in response to a question that the wage rate of your industry in Germany is about 50 percent of the wage rate here.
Deuschle: Approximately.
Keogh: My question is: What has been the trend in the wage schedules in Germany of the last 10 years say? Have they been going up?

Passage E:

Deuschle: *Up until a year or two ago, there was not too much increase. There was not very much increase in wage rates in Germany, but it has accelerated in the last year or year and a half. However, so have ours. We are in an area, our factories are in areas, I should say, where we are forced to compete with large manufacturers.*

If we do not keep raising our wage rates, we do not get any help. We are competing with people like Sikorsky, General Electric, Westinghouse. These are the companies that we have to compete with for labor. So our wage rates and our fringe benefits have increased just as well as theirs, in fact, probably equal.

Keogh: The 42 companies that you indicated have gone out of business, have they gone out of business completely or did they convert to making other products?
Deuschle: Some have gone out completely and others have gone into importing. Some of them are importers. There may be a few that are making other products on a very small scale, but it is negligible.
Keogh: Thank you.
Chairman: Are there any further questions?
If not, thank you, Mr. Deuschle.
Deuschle: Thank you, sir.