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TESTIMONY OF PAULA STERN
BEFORE THE
U.S. TRADE DEFICIT REVIEW COMMISSION
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It is a pleasure to be here at the last U.S. Trade Deficit Review Commission hearing of the millennium. This is an opportunity to reflect personally on more than two decades of work in trade policies and trade regulations, including five years as a legislative assistant for Senator Gaylord Nelson and nine years as Commissioner at the U.S. International Trade Commission (ITC), two years as its chairwoman. Since leaving the ITC in 1987, I have been on the outside looking in at how the government operates, consulting, serving on the board of directors of businesses in the private sector and affiliating with a range of think tanks. I balance my work in the private sector with public service as a member of the President's Advisory Committee for Trade Policy and Negotiations (ACTPN) since the start of the first Clinton Administration and as Co-Chair of the International Competition Policy Advisory Committee (ICPAC) of the United States Department of Justice Antitrust Division. I have also served as Chairwoman of the Advisory Committee of the United States Export-Import Bank and was both a member and senior advisor of the Trade Policy Sub-Committee of the bipartisan, federally mandated Competitiveness Policy Council where I prepared the Council's proposals for reforming United States international economic policy making which helped guide the trade and export strategy of the first Clinton Administration.

The purpose of the Trade Deficit Review Commission is to examine the nature, causes, and consequences of the merchandise and current account trade deficit. I am here today to make some recommendations with regards to the trade deficit. But to do this in a policy relevant context, I would like to begin by stating the six major points I intend to make and relate them to last week's collapse of the World Trade Organization (WTO) Ministerial in Seattle. They are basic themes that I have raised over the course of my career in trade politics, policy, and administration. As I reflect, I can see the warning signs of the Seattle collapse beginning to appear. I believe that United States policy makers should:

- **(1) recognize that competition from overseas is a major reason for the U.S.'s extraordinary economic performance over the past decade. Open-market countries, like the United States, are growing. Closed-market ones are stagnant; the United States is open;**
- **(2) analyze the composition of the trade deficit rather than just consider its aggregate volume. We have problem areas, and we ought to understand where they are in order for proper solutions to be implemented;**
- **(3) establish a realistic agenda for trade liberalization and adapt new institutional modalities that recognize the developments in the past 30 to 40 years. The GATT/WTO system has impelled liberalization, but now it is time to think more outside the box and develop new, constructive paradigms. In short, do the doable;**
- **(4) use the existing U.S. escape clause when specific industries are being seriously injured by imports. Neglecting the WTO-legal safeguard law is costing us;**
- **(5) reorganize the structure of government according to U.S. international economic policy making blueprints described in greater depth in my essay "Getting the Boxes Right"; and lastly,**
- **(6) effectively utilize U.S. human resources through the retraining and retooling of the labor force. Everyone knows that job changes are going to happen, and we have to be better equipped and flexible at accommodating to change.**

ALIGNING TRADE POLICY AND POLITICS

These six points reflect the trade policy philosophy, which has guided my professional work in Washington, If we don't face this domestic political imperative, we will not have *the necessary domestic and political constituency to underpin trade policy.* This sounds obvious but failure to heed this domestic political imperative imperils U.S. trade policy -- or any policy for that matter. Congressional and public criticism of the operations of the old post-World War II Bretton Woods institutions, including the World Trade Organization (WTO) and the International Monetary Fund (IMF) is a reality we have to heed on the eve of the new millenium. The collapse of the U.S.-hosted and chaired WTO ministerial in Seattle is an undeniable reality. The failure twice to achieve fast-track authority from Congress needed to initiate new multilateral or regional trade pacts portended the Seattle collapse.

Several decades ago, I wrote a book entitled <u>Water's Edge: Domestic Politics and the Making of American Foreign Policy</u>, which analyzed how domestic politics and foreign policy is intertwined in our Congressional democracy. This phenomenon is just as true today as it was when I described how the Jackson-Vanik Amendment to the Trade Reform Act became the law of the land in 1974.

<u>A Prosperous U.S. Economy</u>

Before I expound on these six recommendations that recognize the domestic political reality of trade policy making, let me describe the economic background in the United States today. You all know the basic story, but it is important and bears retelling. The U.S. economy, in its ninth year of expansion. will grow at about 4% by the end of 1999. The rate of consumer inflation continues at a very low rate-less than 2%-- even as the unemployment rate fell to a 30-year low of 4.1 %.[1] Twenty million new jobs were created in the US since January 1993; this accounted for over 95% of all jobs created among the G-7 nations.[2] Investment continues to surge, especially in computer technology, the intemet, and telecommunications; capacity is growing even faster than the economy. For those who think the expansion is leaving ordinary people behind, let me say that real personal consumption expenditures and real wages are rising. Wages and salaries have grown by 3.3% or more at an annual rate in every quarter of 1 999.[3] It is a very good time in the United States, the people know it, and it is reflected in consumers= resurgent optimism about the future. Low unemployment does very good things economically and *socially*. This bright picture of the economy underlines my first basic point: competition is a good thing and liberalization of trade is an important contributor to the increased competition in the U.S. that is a key to U.S. prosperity.

I. COMPETITION IS DRIVING THIS EXTRAORDINARY U.S. ECONOMIC PERFORMANCE

Why are we enjoying such an unprecedented prosperity? Technology is certainly a part of it, but the technology is available everywhere -- certainly in Japan, the rest of Asia, and Europe. America is reaping the gains from technology because it has largely deregulated, has a more flexible workforce, and has kept its markets open to imports. This view is based on the analysis of Dr. Paul A. London, with whom I have collaborated over the years.[4]

To continue -- successive administrations starting in the mid- 1970s have had the courage to deregulate finance, transportation, energy, and telecommunications despite very strong opposition. For example, in 1993, when President Clinton was first elected, there was much criticism on risking raising taxes and cutting spending to get a balanced budget by 2002, but the economy has performed beyond all expectations. A lot of credit also goes to Federal Reserve Board Chairman, Alan Greenspan. He could have listened to almost every respectable Republican and Democratic economist in the U.S. and braked the expansion when unemployment went below 6.0 and then 5.5 percent in 1995 and 1996, but he didn't. Despite some misgivings, he gave the newly deregulated and more flexible economy a chance to show that it is a real Anew economy,@ and as a result, in Chairman Greenspan=s own words, the U.S. is enjoying Athe best economic performance in decades.@

Sometimes I have to shake my head in wonder at the wonderful state of the U.S. economy today because it contrasts so vividly with the economy of the 70's and 80's when I served at the ITC. Then I used to think of myself as working in a hospital doing triage for weak, sick and injured (read: Auncompetitive@) industries. The U.S. economy has come a long way, and the U.S. government played a strong supporting, not starring role, in this dramatic shift.

II. VIEWING THE DEFICIT'S COMPONENTS VERSUS THE AGGREGATE

Trade contributes to this rosy picture. Yes, we do have the world's largest trade deficit and yes, we have a prosperous economy that is the envy of the whole world. Before adopting any recommendation for "shrinking the trade deficit", policy makers should appreciate that standing alone, the size of the U.S. trade deficit numbers should not be viewed as a major threat to the economy. According to the U.S. Department of Commerce, the U.S. goods and services trade deficit was running at about $260 billion on an annual basis in the third quarter of 1999, about 2.8 percent of GDP ($9295 billion) up from 1.2% in 1997, but still below the high of 3% in 1 987.[5] The trade deficit of the eighties swelled consumption whereas today the deficit is buying greater investment in a more productive US economy. The United States as the world's largest exporter and importer, is a winner in the worldwide phenomenon called Aglobalization.@ The United States is increasingly a trading nation like the nations of Europe. A total of some 12.1 million U.S. jobs depend on exports, and U.S. jobs supported by goods exports pay an average of 13% - 16% more than the overall U.S. average.[6] Each billion dollars in goods and services that the United States exports supports on average about 13,000 U.S. jobs.[7] And imports. far from hurting employment, principally take the form of components, energy. and materials that keep the American economy working and producing. Of course, this is not new that the U.S. imports a lot of consumer goods too, especially clothing, consumer electronics and autos. And the situation today shows clearly that these imports do not cause U.S. unemployment overall. Rather they are helping to counter inflationary pressures.

Today, the U.S. is the largest manufacturer of automobiles, the premier agricultural exporter and the leading producer of semiconductors in the world. And yet, a huge part of the deficit is composed of the automotive vehicle industry. This leads to my second major recommendation: looking at the economy from a compositional point of view, not as an aggregate picture as many have tended to do in the past.

Sixty percent of U.S. imports are oil and raw materials that go into making other U.S. manufacturing products. According to the Census Bureau, over 90% of the deficit is in two categories – consumer goods and automotive vehicles. The U.S. had a deficit of 137.2 billion dollars in consumer goods and a 75.9 billion dollar deficit in automotive vehicles in 1998. We have to go beyond looking at the trade deficit in aggregate terms, and concentrate on the sectors most affected. We must ask questions about these two areas. Why should a high wage country like Germany and Japan be able to send so many automotive vehicles here to the United States? If wage differential is not the answer, then we must look at the firms in the industry. The answer is because they make higher quality products. Is management the issue? Or is the concentrated structure of some industries contributing to these industries inability to compete?

III. DOING THE DOABLE

The domestic political situation in the United States requires President Clinton and any future President to set what may appear to be modest objectives in the trade area and to use new modalities. Tackling more achievable objectives is a pragmatic approach that can yield important gains. This may not be just a second best solution; it may be the only one. It reflects how far we have come and accepts the Congressional and public criticisms that are bred by the existing limitations of relying on the WTO, a nascent, 500-person institution that is based on an outdated Cold War, geo-political and geo-economic consensus.

The political and economic scenes have changed, and policy has to catch up with these changes. Consequently, what is needed is the pursuit of realistic objectives by the President's trade negotiators. The Clinton Administration has taken political risks that have contributed to the overall superior economic performance. The President has taken chances in his domestic policy to balance the budget, and I believe that his trade policy should fit into this larger economic policy. President Clinton also took large risks in the trade area, and they have paid off, too. He took political risks against the wishes of one of his core constituencies -- organized labor, to achieve Congressional approval of NAFTA and the Uruguay Round of the Multilateral Trade Negotiations begun by his Republican predecessors. He has been outspoken -- when it has been by no means safe -- in arguing that the United States must maintain its leading role in the competitive race called Aglobalization.@ Since 1991 he has addressed the globaphobics stating that Americans cannot repeal the laws of economic change and should not want to. He said this when many advised that the safer political course was to pander to opponents of change. The choice President Clinton has posed for seven years is to compete or retreat, and most Americans have joined him in preferring the former. When he began saying this, many in the U.S. and in the rest of the world thought that it would be very hard for the United States to make a comeback. But openness to trade has played a positive role in a holistic approach to reviving American economic prosperity.

Realistic Expectations

Unfortunately, the critics and proponents of trade exaggerate what trade negotiators or trade negotiations like those recently aborted at Seattle can achieve. Political rhetoric has exaggerated the economic impact for good and evil of trade agreements in the U.S.; and overselling of past agreements backfires. The President understands and hopefully after last week's collapse of the WTO trade talks so do his lieutenants who should choose to make modest debating points, claims, arguments and try to tackle more realistic trade agendas.

To elaborate, look at the rhetoric on NAFTA, Asia Pacific Economic Forum (APEC) and agreements with Japan. Overselling NAFTA as a job bonanza for U.S. exporters backfired when the Mexican economy collapsed during the peso crisis. Yet U.S. exports to Mexico are now expanding with that country's recovery, and if rhetorical expectations had been more realistic it would be easier today to measure correctly the benefits of that agreement.

There are signs, too, that the President=s advisors have tried pulling back from the exaggerated claims for a APacific Community@ that were trumpeted in the early 90's. High-flying visions of a future APEC free trade area including China, Indonesia, and the Asian Tigers by the year 2010 was the centerpiece of the 1994 APEC summit in Indonesia. But this vision lacked political proponents and aroused a plethora of critics in the labor movement. A shift away from abstract trade visions occurred and negotiators' time and energy at APEC meetings has focused on standards harmonization, business facilitation and liberalizing tariffs in industries that may be ready to liberalize sooner than others, like information technology equipment. This modest "early harvest" approach reduces the risks of a political backlash at home, involves less self-deception, and ultimately may yield more liberalization sooner than big thematic efforts.[8]

Trade advisors serve their elected President best by setting negotiating agendas that have domestic political underpinnings. We need a new paradigm in the trade area, with the U.S. taking the lead in developing new commercial rules of the game multilaterally at the World Trade Organization (WTO). and regionally in Latin America and APEC. The four-year experience of the TABD is a good model for gains in trade. It tackles discrete issues identified as business priorities. This provides focus for the trade negotiators and a built-in active constituency. And it raises less concern about lower labor or environmental standards since the agreements related to countries that share high standards and higher wages. The U.S. should also promote specialized forums like the International Labor Organization (ILO) and to deal with the rules governing labor conditions and create a new global environmental forum (GEO) to address concerns about sustainable development. There are practical steps that the WTO can consider to deal with legitimate operational criticism of the WTO and its dispute settlement mechanism.[9] And the Administration has to adapt its education and training policies to the changes caused by globalization and advance adjustment mechanisms to fit any new trade compacts.

Fast Track

The United States has achieved robust export growth by taking steps that *don't* require fast-track negotiating authority. I am not arguing that the United States will never need fast track authority again, or that there should never be another multilateral trade round, but it is clear that there is much to do in a less grandiose fashions that would stand a better chance of gaining adequate domestic support. While taking a more concrete step-by-step approach, the time can also be used to reflect on the lessons of the fast track defeat and the collapse of the WTO in Seattle to craft a more successful set of arguments for the next domestic wrangle about this issue which will surely come.

Educating the Public

To prepare better arguments, thought needs to be given to the public=s attitudes toward trade. Imports -- foreign competition -- is blamed for economic problems because it is a more acceptable target than obsolete plant, poor management. tougher domestic competition, changes in product preferences, and a host of similar, natural economic causes for job shifts and losses. NY Times columnist Tom Friedman writes: AEven if trade really doesaccount for only a small part of job churning in our economy, politically and psychologically it looms much larger.@
A U.S. Census survey of U.S. manufacturing over almost two decades shows that on average 10 percent of jobs that existed at the beginning of a year were gone by the end, and that 9.5 percent of jobs that existed at the end of the average year did not exist at the beginning. And there appears to be almost no difference whether the industry is in the traded or non-traded sector.

Blaming imports -- trade -- for job losses even when they are not the cause is a political perennial. During the fast-track debate last year, critics of granting the President trade negotiation authority asserted that the Administration is bending over backwards for the business community, for example, by negotiating intellectual property rights and foreign investment protection, while allegedly ignoring the concerns for the labor and environmental standards that apply to workers and the workplace in overseas markets. I do not believe that is the case, but a better job has to be done of combating this impression.

Historically, in the United States there have been shifts in regions in production of goods such as the textile and footwear industries. They have moved from the northeast regions of this country to the south. Even when they occurred inside the U.S., these shifts were met with opposition from those affected. Ultimately, we can look back in history and see that despite oppositions from protectionist groups these changes have freed up the U.S. workforce to work in higher value and paying activities. Similar migrations occur from the U.S. to offshore sites, and we should be mindful to explain to the U.S. public that this ultimately benefits the entire nation in their roles both as consumers and producers.

When President Clinton visited Chile for the Summit of the Americas several years ago for the ostensible purpose of launching negotiations for the Free Trade Area of the Americas, participants were painfully aware that he had no trade negotiating authority. In asking our trading partners in the Americas for patience as America continues its painful internal political debate over the benefits of free trade, the President paraphrased Winston Churchill, who said AThe United States invariably does the right thing. after having exhausted every other alternative.@ 1 share the President's optimism, but for this maxim to again be true. educating the public about the benefits of open markets is essential.

In the meantime, there is useful work to do. The absence of negotiating authority and the chaos in Seattle may be sending a signal to the world that political support for open trade in the U.S. is weaker than it really is. Most Americans recognize that the country can and should expand trade, but this may not be the right time to sell trade expansion with huge fanfare. As we have seen with deregulation since 1976, most American may not want to do things in one fell swoop. In any case. in trade, as has been the case with deregulation, the long term results of taking political resistance into account may be as good or better.

A successful and progressive trade policy -- indeed good policy of almost any kind in the United States -- requires support from more than just a bare majority. In the trade area, business, workers, and consumers all have to sign on. To build the necessary domestic political support for trade initiatives, Congress and the White House must be seen to advance worker and environmental goals as well as trade and investment expansion. It is not wrong to want trade rules that achieve sustainable global economic growth and do not degrade the environment, nor are fair labor standards necessarily impediments to trade. But American businesses groups are right to insist that any attempt to use environmental and labor issues to mask trade protection should be absolutely ruled out.

A New Paradigm for Trade Negotiations: TABD

The Clinton Administration trade officials will be well advised to tailor its trade policy to fit the political mood that makes grandiose designs impossible, but which makes important incremental progress attainable. Although the path to a New Transatlantic Marketplace is littered with obstacles, both old and new, progress in U.S.- EU trade liberalization made over the past five years by the Transatlantic Business Dialogue (TABD) suggests promise. The TABD is a unique example of entrepreneurial diplomacy by American and European businesses. Begun in February of 1995, the transatlantic business group has identified specific obstacles to trade, which the governments have moved quickly to remove. In effect, this Avirtual organization@ uses an open, flexible framework to tackle issues ranging from sectoral tariff liberalization via the Information Technology Agreement (ITA) to harmonization of technical standards via the June 1997 U.S.-EU Mutual Recognition Agreement (MRA). According to one well-respected U.S. official, AIn fact, virtually every market-opening move undertaken by the United States and the EU in the last couple of years has been suggested by the TABD.@[10]

The structure of the TABD. itself. reinforces *the trade expansion constituency.* Although the TABD has relied on the role of U.S. and EU CEO's and their individual companies in the process, it has also taken advantage of existing business organizations and associations in both the United States and the European Union. The result is a built-in constituency, with strong organizational structures, that is technically knowledgeable and politically capable to push for changes in regulation and legislation. Meanwhile, the government has sponsored parallel dialogues by labor and consumers.

The Clinton Administration=s defeats on fast track and the WTO ministerial do not mean that further important steps toward liberalization of trade cannot be taken. What is needed is recognition that although the politics will be difficult --- it almost always is --- the U.S. political system in the past seven years and indeed over the past 20 years, has made tough decisions on trade and deregulation that have made the economy remarkably competitive and open both internally and internationally. We should continue on the successful path in spite of potholes along the way.

IV. USING THE ESCAPE CLAUSE

My trade policy philosophy tries to preserve the integrity of the WTO, but public support for the WTO sanctioned import relief for the U.S. legal trade system itself will be squandered if the U.S. government neglects the useful safeguards on the law books for import imperiled industries and workers. Section 201 is a case in point. Because the Section 201 deadlines are being ignored, impact relief, if ever granted, will take as long to have been granted as U.S. dumping duties, which are the target of criticism by virtually every one of the 134 members of the WTO. This undermines support for the domestic legal trade laws and the international trade system both at home and abroad.

Take the Steel Wire Rod case. In the spirit of full disclosure, I have been working as an economic consultant with the steel wire rod producers, in tandem with the steel workers. So le me quote an independent viewpoint, that of Greg Mastell:

> "Their case proceeded in a timely fashion to the International Trade Commission (ITC), where half of the Commissioners agreed with their claim and recommended tariff relief. Under Section 20 1, a tie vote by the ITC is effectively considered an affirmative decision so the case went to the President for a final decision.
>
> Under the law, a final decision was due on September 27th. But the workers in Peoria never got the news they were hoping for from the White House. In fact, they never got any news at all. Now. . . 10 weeks after the statutory deadline, a deadline the Administration promised to meet promptly, no decision has been forthcoming.
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> The Clinton administration delayed another similar decision on lamb meat earlier this summer for a shorter period, but before these two decisions, no President had ever missed a statutory decision on Section 20 1 relief.
>
> The utter disregard with which the Clinton administration has treated this deadline is particularly disturbing because Section 20 1 is widely seen as a law with many virtues. Unlike some other proposals for trade relief. temporary import relief under Section 201 is entirely endorsed by the World Trade Organization (WTO). Further, Section 20 l's temporary import relief tied to an industry plan to adjust to become more competitive has been successful in returning the Harley Davidson Motorcycle Company, the specialty steel industry, and others to competitive health.
>
> Further. Section 201 has been a critical safety valve for free trade. As the founders of the world trading system recognized, increases in imports will occasionally create economic dislocations. If there is no mechanism to ease those dislocations, opposition to free trade is likely to build up and, ultimately, undermine the entire trading system. Thus, Section 201 is critical to maintaining support for free trade. For this reason, Section 201 has been supported by lawmakers across the ideological and political spectrum.
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> The Administration seemed to realize this vital role of the statute earlier in the year when it promised quick action under Section 20 1; that promise, by the way, came when the Administration was attempting to halt congressional action to impose quotas on steel imports. Apparently, the promise was only good as long as the threat of legislation was real.
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> Despite the WTO consistency of Section 20 1, despite its good record of encouraging adjustment, and despite its vital safety valve function, the statute has fallen into disuse in recent years. As the case at hand demonstrates rather starkly, this administration does not treat temporary safeguard actions as a serious option. Section 20 1 has been and should continue to be a vital part of U.S. trade policy. The steel import crisis demonstrates the ongoing need for temporary import control mechanisms. If, however, the White House does not treat Section 201 as a serious and credible option, no one else will either. Industries facing import competition will find other options, many of which are mush less attractive than Section 201.
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> Ironically, President Clinton kicked off his campaign in favor of new WTO negotiations at a Harley Davidson motorcycle plant. Fortunately for him, President Reagan -- hardly a knee jerk protectionist -- took the complaints of Harley Davidson under Section 201 more seriously

than he has taken those of .. steel workers otherwise he might have had to find another site for his photo opportunity. Whatever the excuse for White House inaction, the workers at ... and around the country deserve better treatment."

When I was with the United States International Trade Commission (USITC) during the recessionary period of 1980-1983, interest rates were stratospheric; unemployment was in the double digits with blue-collar unemployment as high as 15%. I discovered that my Section 20 1 work on automobiles, motorcycles, specialty steel, etc. required me to develop an analytic framework for assessing the effect of imports on cyclical industries.[11] I concluded that in its wisdom, Congress did not design the escape clause in such a way to make relief more *difficult* to obtain for industries that are cyclical.

By the same token, Section 201 should not be *harder* for a cyclical industry to access in an upturn than a downturn. Now as then, the task before the ITC – to assess the role of imports on injury and causation in cyclical industries -- is the same: to apply a methodology that is compatible both with the law and with reasonable economic analysis. I urge the Congress to make it clear to the ITC and the President that import relief under Section 201 should relate to the industry that is import injured without regard to whether the overall economy is prosperous or suffering. To accomplish this, the Commission will need to identify the unusual or abnormally ill effects experienced an industry during a macroeconomic boom or bust in the United States.

201 **Methodology**

Let me elaborate-back in 1985, I wrote that:

"Any mature industry in a healthy condition must be able to replenish depleted capital and survive to the next period. And, a growth industry must be able to attract net new investment . . . . New investment does not occur during downturns, but investments should be far more intense during upswings ... Increased profits in boom times make it possible for firms to finance investments ... heavily cyclical industries *must* (emphasis added) generate more robust profits during the upswings to make it through the downturns. Injury ... from imports . can occur during either part of the cycle if these profits are squeezed or losses magnified.. .factoring out the 'usual' aspects of a ... trough or peak upholds congressional intent and gives economic meaning to the 20 1 impact relief process. The terms 'abnormal' 'peculiar,' and 'unexpected' or 'unusual' may be subjective, but they reflect the only practical approach to sorting out what factors may be responsible for lowering a cyclical industry's performance below the trend line."[12]

In the steel wire rod case or in any cyclical industry, the ITC's task is assisted when "normal" cyclical fluctuations are separated from the expected trend for an industry. Thus, for example, steel wire rod should be doing splendidly in today's booming U.S. economy. It's not. This abnormally bad performance during great times demonstrates the industry's serious injury. The cause of this abnormality is imports.

Investment upgrades are normally incurred in this business, and such investments should in normal circumstances be rewarded with adequate returns on investment. In peak demand periods, returns should be at their peak. However, the lack of adequate returns on investment, together with loss of profits and capacity underutilization, are clear indicia of injury and threat of serious injury.

The abnormality – the anomaly in the marketplace which is the cause of serious injury and threat – is the wave of cheap imports from a proliferating number of new country suppliers penetrating a spreading number of U.S. ports and sold "on spec" from inventories accumulating on the docks. The wire rod industry is in dire straits. Its performance is worse than the rest **of** the steel industry and the worst among 37 industries with cost structures similar to wire rod.

Adjustment Plans

Section 201 contemplates that the petitioning industry provides the ITC adjustment plans for the period of import relief. In Phase II of the remedy phase of this investigation petitions are prepared to file an adjustment plan detailing the investments they contemplate to improve efficiency, increase product range, and enhance quality.

The Harley Davidson motorcycle case[13] in early 1980 is relevant here. Scholars, practitioners, politicians and the media have all portrayed the motorcycle case as one of the most successful uses of section 201. Just three weeks ago, President Clinton chose the Harley Davidson site to give a major trade speech. Back in 1980, Harley Davidson, the sole U.S. based manufacturer was on the cusp of renewal through new investment which was undermined by increasing imports. Section 201 import relief permitted Harley Davidson to thrive.

The steel wire rod industry is in a similar position today. Without relief, it is withering with more workers permanently laid off and factories shut down. By temporarily protecting an industry that is struggling to assist itself, the President would also be signaling the world that Section 201 is a viable legal tool of import relief of U.S. trade policy.

V. GETTING THE BOXES RIGHT

The President's officials at the USTR and White House have apologized for the manner in which this latest 201 case is being staffed and implemented. It never seems to be the right political environment to reorganize: This brings me to organizational matters -- how the federal government crafts and implements trade and other international economic policies. And yet the conditions persist that cries out for (1) consolidating many of these now-scattered functions into a remodeled cabinet-level U.S. Department of Economic, Industry, and Trade Affairs, and (2) rationalizing and downsizing some of these functions to fit new budget realities.

Although the restructured department I spell out in detail would not bring every trade function of the federal government into one agency, its creation would reduce the current unhealthy level of fragmentation in international economic policy making. Today's policy structure encourages bureaucratic rivalries, duplication, lack of communication, and an undesirable separation between policy development and implementation. It also inhibits formulation of a trade and commercial policy that best represents U.S. national interests.

Two basic premises underlie the idea for a Department of Economic, Industry, and Trade Affairs. The first is that appropriate federal activities that facilitate trade by export promotion or by generating information that advances private sector participation in trade are vitally important. Yet most restructuring proposals put greater emphasis on the more visible and adversarial activities of the Office of the U.S. Trade Representative -- in negotiating and in wielding Section 301 -- and on the pursuit of dumping and countervailing duty complaints by the Commerce Department's Bureau of Import Administration (I.A.). These activities have an important and legitimate role; but they are neither the main functions nor the most important of the government's trade operations.

The second premise underlying this plan is that officials responsible for formulating and implementing U.S. trade policy should have ready access to information about how their actions could individually affect all industries in both U.S. and overseas markets and how it affects the economy as a whole.

This broader perspective should be institutionalized by ensuring that the new department reflects the close relationship between foreign trade and the broader economy. This goal is particularly important because, of all policy areas, trade involves the largest number of inherently competing interests. There are a) competing domestic interests -- U.S. producers vs. U.S. consumers, U.S. producers of manufacturing inputs vs. U.S. producers of finished goods, and U.S. producers vs. U.S. exporters (who might face retaliation stemming from actions on behalf of domestic producers); b) competing international interests -- domestic producers vs. foreign producers, and the producers of one foreign country vs. those of another competing for the U.S. market; and c) competing intra-governmental interests -- U.S. commercial policy vs. various objectives in U.S. foreign and international security policy. Each set of tradeoffs has policy implications that a new structure could handle more effectively. The reconstructed trade regime I propose would be better able to view these competing interests objectively while enjoying credibility and a reputation for fairness domestically as well as internationally.

Trade policy has at least five primary dimensions, and, the federal government has a vital role in all: trade promotion, trade financing, trade negotiation, trade intelligence gathering and analysis, and trade law enforcement relating to both imports and exports (i.e., export controls). These five are intimately connected and must be effectively integrated in order to produce a coherent and effective trade and commercial strategy.

While consolidation is important to make rendering many functions more effective, there are trade functions that must maintain strict independence to guard against bias. This restructuring plan would allow such independence to be preserved for individual agencies within a larger cabinet department -- as currently is the case for the Import Administration within the Department of Commerce (DOC). This is important for enforcing trade laws that govern both imports -- e.g., dumped or subsidized imports -- and exports restricted because of national security or foreign policy considerations.

The Structure

The centerpiece of this trade remodeling strategy is a cabinet-level Department of Economic, Industry, and trade Affairs. This restructured and comparatively small department would consist primarily of the existing Office of the U.S. Trade Representative and the economic and trade functions now located within the Commerce Department. It would also incorporate the Export-Import Bank, the Overseas Private Investment Corporation (OPIC), the Trade and Development Agency, and the Small Business Administration's export assistance programs. The department would have primary responsibility for implementation of import and export controls, for export promotion, trade negotiations, industry analysis, and economic data collection and analysis now carried out by the DOC's Bureau of Economic Analysis and Census Bureau, the Labor Department's Bureau of Labor Statistics, and the economic office of USTR.

VI. RETRAINING AND RETOOLING THE LABOR FORCE

The "first-best policy" is defined as a policy that raises national welfare, or enhances aggregate economic efficiency, to the greatest extent possible. In the U.S.'s situation, in the midst of the trade deficit, the retraining and retooling of our labor force should be our "first best policy."

New trade pacts liberalizing trade require new compacts with American workers. President Clinton should pair any trade expansion efforts to a strategy for cushioning the often jarring impact of global competition on American communities. New labor policies should also emphasize the opportunities created by open global trade. Retooled education and training programs-for example, Job Opportunity Vouchers for displaced workers-should equip Americans to cope with the volatile global economic environment.

Conclusion

A progressive trade policy requires support from all commercial interests-business, workers, and consumers. To build the necessary domestic political support for future trade initiatives, Congress and the White House must strike a balance to advance worker and environmental goals as well as trade and investment expansion.

Endnotes

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[4] Paul A. London, unpublished manuscript 1999.

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[8] Progressive Policy Institute, *Backgrounder*. "U.S. Engagement in Asia and APEC: Building a Path to Freer Trade, Brick by Brick" by Paula Stem, November 7, 1994.

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[10] Acting Undersecretary for Commerce for International Trade, Timothy J. Hauser, testimony before the Subcommittee on Trade of the House Committee on Ways and Means, Washington D.C., July 23, 1997.

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