S. Hrg. 98-858, Pt. II

# TRADE REORGANIZATION PLANS—II

## HEARING

BEFORE THE

## SUBCOMMITTEE ON INTERNATIONAL TRADE

OF THE

## COMMITTEE ON FINANCE
## UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

SECOND SESSION

FEBRUARY 27, 1984

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# TRADE REORGANIZATION PLANS—II

MONDAY, FEBRUARY 27, 1984

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL TRADE,
COMMITTEE ON FINANCE,
*Washington, D.C.*

The committee met, pursuant to notice, at 9:30 a.m., in room SD-215, Dirksen Senate Office Building, Hon. John C. Danforth (chairman) presiding.

Present: Senators Danforth, Roth, Grassley, Long, and Bentsen.

[The press release announcing the hearing and the prepared statement of Senator Charles E. Grassley follow:]

[Press Release No. 84-112, Jan. 31, 1984]

SUBCOMMITTEE ON INTERNATIONAL TRADE ANNOUNCES HEARING ON TRADE REORGANIZATION PLANS

Senator John C. Danforth, Chairman of the Subcommittee on International Trade of the Committee on Finance, announced today that the Subcommittee will conduct hearings on Tuesday, February 21, and on Monday, February 27, 1984, on proposals to reorganize the international trade functions of the Executive Branch. Testimony will be heard on S. 121, reported by the Committee on Governmental Affairs, and on S. 1723, referred to the Committee on Finance on August 2, 1983.

Both hearings will commence at 9:30 a.m. in Room SD-215 of the Dirksen Senate Office Building.

In announcing the hearings, Chairman Danforth explained that the February 21 hearing will provide an opportunity to explore the trade policy implications of S. 121 with Administration witnesses, and of S. 1723 with its sponsor, Senator Mattingly. Public witnesses are invited to testify at the second hearing on February 27.

STATEMENT OF SENATOR CHARLES E. GRASSLEY

Mr. Chairman, unfortunately, today we can no longer view trade in the same light that we did 10 or 20 years ago. The task of our political leadership is to understand the gravity of the position we are in and to begin to shape a trade policy that makes sense for our farmers, our industries, and our trading partners for the balance of the 1980's and perhaps well into the 1990's. It must be, however, be a policy which the American people can believe and our trading partners can be convinced is in their best interest as well as ours.

There are unmistakable signs in the United States for a development of a crisis of confidence in our trading system. The crisis is reflected in:

Mounting pressures in the United States for import restrictions on foreign-made textiles, clothing, shoes, steel, electronic products and voluntary constraints on automobiles.

Growing demands for the retaliation against foreign measures which place American agriculture and other products at a disadvantage in markets abroad.

A sense of frustration with our persistent balance-of-payments deficit and a feeling that other countries are not doing their fair share in making the international monetary system work.

An increasing concern that the foreign economic policy of our government has given insufficient weight to our economic interest and too much weight to our foreign political relations.

Overhanging these doubts and frustrations is the belief that we lack the sense of priorities and the organization to deal with them effectively. Whether our people can enjoy the benefits of open channels of trade and investment while coping with the real human problems of adjusting to rapid economic change will depend on the wisdom and the realism which we and other countries adapt to the changed circumstances.

Although I am not totally convinced regarding the re-organization of the Department of Commerce into the Department of International Trade and Industry, I look forward to this hearing. In the past when the American people have been put to the task, they have shown the world they have no shortage of creative solutions. We in the Congress should follow their lead by giving serious consideration to those proposals that can put America in the forefront of economic and trade prosperity.

Thank you, Mr. Chairman.

Senator DANFORTH. This is the second day of hearings in the Finance Committee on S. 121, which raises the issue of whether or not our Government would have a stronger position in international trade if we were to abolish the USTR as a separate agency and fold it into the Commerce Department.

The first panel consists of Robert Herzstein, former Under Secretary of Commerce; Robert Hormats, former Deputy USTR and Assistant Secretary of State; and Harald Malmgren, former Deputy USTR.

Gentlemen. Mr. Herzstein, if you would like to start.

## STATEMENT OF ROBERT HERZSTEIN, PARTNER, ARNOLD & PORTER, WASHINGTON, D.C.

Mr. HERZSTEIN. Senator Danforth, the summary of my testimony is set forth on one page, which you have before you. I don't think it's necessary for me even to go through that, so I may use less than my allotted time, and reserve it for questions later on. Perhaps that's the best way with this group of sophisticates that you have before you this morning to go into the issues.

I will simply start out by saying that we've had the present system of organization for executive branch functions in place now for a little over 4 years, with two entirely different sets of officials operating within it. I believe the experience of both administrations has shown that under this system the relations between the officials of the U.S. Trade Representative's office and of the Department of Commerce are simply not constructive. They are far from optimal in terms of either policy formation or management. And they are not conducive to clarity, confidence, or creativity in the execution of our trade policy and trade management responsibilities.

The reason for this is that we have taken the top off of what would otherwise be the organization responsible for our trade responsibilities and separated it from the rest of the organization. It's as though we had gone to the Du Pont Co., the Scovill Manufacturing Co., or the Monsanto Chemical Co., and taken 150 staff persons or officials off the top and put them in another office, and then tried to delineate in a few pages of text just which group would be responsible for what.

In this case, the text is Reorganization Plan No. 3 of 1979, which draws the distinction between coordination of policy formation, which it gives to the Trade Representative's office, and implementation of trade programs, which it gives to the Commerce Department.

In practice, it's simply not possible to distinguish between those two concepts. The result is that we have an unworkable division of responsibilities. In practice, what this means is that the officials at the top, the Secretary of Commerce on the one hand, and the U.S. Trade Representative on the other, cannot act with clarity and confidence in the execution of their responsibilities. Each of them feels he must check with the other before he speaks out, or he speaks out and then finds that the other is in one way or another distressed at what he said. As a result, some things don't get said that need to be said. And there is unnecessary confusion.

At the lower levels one finds that staffs from both agencies feel they have to be involved in almost everything that goes on. What a person in the Commerce Department views as implementation will look perilously like it's going to get into policy from the point of view of someone at USTR. The opposite occurs when someone at USTR gets into something that looks to the people in Commerce as though it is implementation and they want to be involved, too.

Bob Hormats and I encountered numerous examples of this when we were in office. Fortunately, we were able to make the system work because we met with each other every Friday morning at breakfast, and in a very cordial and constructive fashion, worked out a lot of specifics as we went along, allocating the responsibility for who would do what and how our groups would cooperate with each other.

I must say we were often untangling snarls that had already occurred. And even when we were in agreement among ourselves, we couldn't necessarily follow up and see that everyone remained in concert with each other as the programs went forward. There are a number of specific snarls that I could give examples of, but I won't do so in the time we have here.

So that is the fundamental problem with our existing system. The other problem is that, as indicated in my testimony, top trade officials are not adequately connected with the other aspects of domestic and international policymaking that have a serious impact on trade responsibilities.

I do feel that the bill you have before you addresses both of these problems rather well. It also does some other useful things in terms of equipping us to conduct our trade programs effectively.

Senator DANFORTH. Thank you, sir.

[The prepared statement of Robert Herzstein follows:]

Before the Committee on Finance
United States Senate
February 27, 1984

Testimony of Robert Herzstein

Concerning the Department of
International Trade and Industry Act of 1983

Mr. Chairman: Thank you for this opportunity to present my views on the Department of International Trade and Industry Act of 1983.

As you know, I gained personal experience with the problems we will discuss today when I served as the first Under Secretary for International Trade in the Department of Commerce. That position was established as part of our present organization of Executive Branch trade functions a little over four years ago. I viewed the partial consolidation of trade functions that was accomplished at that time as a big step forward, and I worked hard to make it as effective as possible. Since leaving office I have continued to observe closely the functioning of our trade agencies. With former Ambassador and Special Trade Representative William Eberle, I serve as Co-Chairman of the Coalition for Effective Trade Organization, a business group which is deeply concerned with the problems your Committee is discussing today.

I support the Act, and its provisions to consolidate in a new cabinet level department the key functions of our government which affect the international trade of the United States. Today I will explain why I think the new department is needed and why the department envisioned by this Act will strengthen the United States position in international trade.

I. Why Do We Need a New Department of Trade?

First, international trade is much more important to the United States now than it has been at any time during recent decades. This increased dependence on external trade is a result of the great success of the trade agreements program. This program, sponsored by the United States at the close of World War II, substantially opened the markets of other nations to U.S. products and the U.S. market to foreign products.

Second, the United States will not continue its success in global markets unless the government gives increased attention to the conditions affecting the competitiveness of individual industries.

When the United States led the trade liberalization drive during the thirty years after the War, Americans generally assumed that open markets would mean greater success for American producers, since U.S. productive efficiency in every important industry was unrivalled. However, as the U.S. government worked to open the global market, other governments (quite understandably) worked to build industries able to compete effectively in that market. In fact, often with significant governmental support, industries in other countries are now providing formidable competition for U.S. enterprises. Even American firms which have not customarily viewed themselves as competing internationally are discovering that their traditional home market -- be it California, Idaho, or Tennessee -- is now part of the global market. These firms now must compete with foreign producers or perish.

Repeatedly, in one industry after another, American firms and workers are also discovering that success in global competition depends not just on management skill or competitive zeal, not just on risk capital and access to resources and labor, but also on the entire structure of the business and social system in which a company operates. Success turns heavily on the attitudes and training of workers and managers; the company's relationships with suppliers, capital sources, customers and competitors; its access to technology; and the taxes and regulatory burdens it bears. Many of these factors are influenced by government policies, and industries in nations with government policies keyed to supporting global competitiveness enjoy advantages over industries in countries which do not. Of course we should not try to imitate everything these countries do; we should, however, modernize our government to enable it to establish effective programs that take account of the realities of global competition today.

The inroads of foreign competition in some of our basic U.S. industries, including not only steel and automobiles, but also semiconductors and telecommunications, have greatly eroded the confidence of Americans in the open world trading system which has served the interests of the Western trading nations so well. The United States must equip itself to compete more effectively in the global market and to advance more effectively its interests where policies of other nations injure us, or, inevitably, our people will demand that we retreat from the global market into a protected position. The dramatic increase in filings of petitions and bills for trade relief in recent months is a troubling sign that disillusionment with our ability to compete in the world trading system is spreading. If the process continues, it will jeopardize the liberal trading order and the benefits it has brought us. Maintaining confidence in our competitiveness, and therefore in the open competitive market, is the central challenge for the nation's trade leaders today.

Third, the authority, responsibility, and resources needed for a government trade program of the sort needed in today's world are simply not arrayed properly within the Executive Branch of our government. There is now widespread recognition in the United States that the ability of American industries to compete with foreign firms should be treated as a more important factor in the formulation of government policies than it is now. But when businesses look for support, they find that our government is not well equipped to deliver. Our government makes no concerted effort to predict the future on trade issues, and is not properly organized to deal with those issues when they arise. The key shortcomings in our current system are as follows:

(a) <u>The division of functions between the U.S. Trade Representative and the Secretary of Commerce creates overlap and confusion.</u>

The 1979 reorganization of trade functions was a logical and helpful first-step in the consolidation of U.S. trade functions. It has greatly strengthened enforcement of our trade laws and improved public confidence in them; it is beginning to make U.S. commercial representation abroad more vigorous and effective; and it has greatly improved the ability of the Commerce Department to facilitate access of U.S. business to foreign markets. This shows that proper organization can produce real benefits.

But even as the 1979 reorganization was being implemented, it became clear that it had left a major flaw in the trade policy structure of our government.

The Trade Representative has the leading role in coordinating policy formulation. The Secretary of Commerce is responsible for implementing trade policies and programs. In practice, however, it is impossible to distinguish between policymaking and implementation. For all the good it has done, the 1979 reorganization has left the two agencies guiding U.S. trade policy with conflicting and overlapping jurisdiction.

The problems created by the current organization include bureaucratic inefficiencies, extraordinary duplications of effort, and needless rivalries. At the staff level, employees often do not know where their responsibilities and functions end and those of the other agency begin. Because there is not a bright line between policy (U.S.T.R.) and implementation (Commerce Department), this problem cannot be resolved while we have separate agencies.

Commerce Department staff members perceive that many of their policy ideas and analyses must be filtered through two hierarchies, and that when their good work does emerge from the interagency process, it will be identified as the product of officials in another agency. In this respect the structure stifles creativity and makes it difficult to retain talented employees. At the same time, U.S.T.R., which heavily relies upon Commerce Department staff for substantive support, has no real authority over the hiring, training, and assignment of that staff. It must accept Commerce work product as it is or hire new U.S.T.R. staff members to duplicate functions already in place at Commerce.

At the supervisory level, the leaders of both agencies must spend substantial amounts of time straightening out the conflicts engendered by our illogical split in authority. I estimate that I spent about ten to twenty percent of my time as Under Secretary involved in this type of controversy.

But the single most serious drawback of the current allocation of responsibility is that neither the Trade Representative nor the Secretary of Commerce has the clear mandate to speak as the Administration's top representative on trade issues. On important matters, neither the Trade Representative nor the Secretary of Commerce can act authoritatively or emphatically without consulting the other. But however well the men holding those positions get along, it is simply not feasible for them to consult on all issues in detail. As a result, each official, instead of acting authoritatively and emphatically, must hedge, act with caution and look over his shoulder.

Within the government, neither official has the "clout" to get proper attention focused on trade interests when major economic and foreign policies are being formulated. For example, when the Administration's domestic economic program was formulated in 1981, there was no authoritative voice in the Executive Branch with the mandate to educate the other policymakers -- and the public and Congress -- on the effects of these domestic policies on our international economic position. Attention is now being focused on the effect of the government's fiscal deficits, high interest rates and the strong dollar on our competitiveness and our trade balance. We might be better off if international trade interests had been more carefully considered at the outset.

This split mandate also weakens our government's dealings with outsiders. Foreign officials must talk to two or more U.S. officials on trade matters. These foreign officials may be unsure whose views to accept as authoritative or may find they can take advantage of differences in opinion between the two U.S. trade agencies and play one U.S. official off against another.

(b) The short tenure and frequent turnover of most of our trade officials weakens our government's ability to carry out effective, <u>cohesive long-term trade programs.</u>

Our negotiators often lack the experience and detailed professional competence of their foreign counterparts, and the absence of a clear and attractive career path for international trade experts discourages many talented persons from staying in the government.

(c) The trade agencies, and the U.S. government generally, lack strong industry sector offices to monitor developments that affect the health of specific American industries.

I believe that the quality of available information, more than preestablished doctrines or political philosophy, dictates the quality of the economic decisions that government and industry make. Yet neither the Secretary of Commerce nor the Trade Representative has access to reliable, comprehensive information on the health and vitality of individual sectors of American industry, or on the factors affecting their ability to compete internationally. The trade officials lack the information needed to anticipate problems and exploit opportunities at an early stage. Instead, they find themselves attempting to react to problems after they have reached a stage at which remedies are costly and inadequate.

For example, when the difficulties of the automobile industry began to emerge in 1979 and 1980, it was clear that the problem would be serious. But

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no agency in government had responsibility to monitor the developments adversely affecting one of our largest domestic industries and to begin analysis of policy options. When the problem achieved a political dimension in the second half of 1980, a task force was hastily established under the leadership of the Department of Transportation. While the Department of Transportation knew much about automobile safety, it lacked expertise in trade issues. Nothing meaningful was accomplished until 1982, after the domestic industry unsuccessfully petitioned for import relief at the I.T.C. Finally, President Reagan sent U.S.T.R. Brock to negotiate a costly and controversial voluntary restraint agreement with the Japanese. I believe that if an industry sector office with responsibility for monitoring the automobile industry had been in place in 1979, officials could have begun then to determine whether there were measures appropriate to government which might have alleviated the problem at an earlier stage and with less political and economic cost.

Our government should fully and closely follow at the earliest stages practices such as foreign government targeting of selected industries as vehicles for competition in international markets. As those programs develop, our government should have the resources to assess their implications, consult with U.S. industry, formulate responses, and implement them through trade negotiations and domestic competitiveness policies.

An exception to this lack of industry sector monitory capability helps prove the point. There exists in the Department of Commerce an agency dedicated to the telecommunications industry (National Telecommunications and Information Administration). As a result, the government is able to do a much more effective job of advancing the interests of that industry, at home and abroad, than is the case with other industries.

## II. What Will the Department of International Trade and Industry Act Do to Strengthen the U.S. Position in International Trade?

First, the new Act would eliminate the unworkable and troublesome division between the trade policy development and negotiation functions of the U.S. Trade Representative's Office and the trade policy implementation functions of the Department of Commerce. The Secretary of the new Department would be the United States Trade Representative and would have the responsibility for the functions presently allotted to the separate agencies.

This consolidation of functions will end the overlap, confusion, and uncertainty created by the present divided responsibility. The new U.S.T.R./Secretary of Trade will be able to meet with foreign officials and with other U.S. cabinet officials and speak with confidence and authority on the issues that affect U.S. participation in international trade. (He will, of course, need to coordinate his policies with officials from other departments, particularly State, Agriculture and Treasury, as will always be the case in the trade area.)

It has been argued that reorganization itself would create too much confusion and divert our energy and attention from the important trade issues of today. But, as I have mentioned, the present system already engenders problems on a continuing, daily basis that seriously interfere with our ability to manage trade issues. The further consolidation of functions called for in the proposed Act would include some initial confusion, but the benefits, in terms of clarity and confidence in daily decisionmaking, would very soon outweigh the transitional costs.

It has also been argued that the Commerce Department is the "voice of industry" and therefore inherently protectionist, and that the new Trade Department would therefore also be protectionist. This criticism overlooks the diversity of interests in U.S. industry. Protection of one industry against import competition inevitably harms other industries, either because they are unable to obtain needed exports or because foreign countries retaliate against U.S. exports. Indeed, U.S. industry, in most cases, is highly sensitive to its interdependence with the economies of other countries and fully appreciates the benefits of liberal trade. By far the largest proportion of the pressures felt by high officials of the Commerce Department are in the direction of liberal trade. American businessmen at home and abroad rarely miss a chance to urge Commerce Department officials not to disturb our interdependence with other countries.

I believe that those who charge that a Trade Department would lead to protectionism have reached a conclusion opposite to reality. The greatest pressure for protectionism will arise if more American industries and workers become disillusioned with our nation's ability to bring about a fair trading system and to compete effectively in it. By making the government more effective in both trade and competitiveness policies, the new Department will reduce the causes of protectionism.

Reorganization will not automatically give us "correct" policies. We should recognize that much of policy formulation involves striking a balance between fundamentally irreconcilable national objectives. (For example, export controls promote national security while reducing trade opportunities and impeding scientific exchange.) The "correct" policies for our country are those that emerge from a process that properly considers all U.S. interests, examines all options, and chooses solutions on the basis of an effort to serve the overall national interest. These decisions derive their legitimacy and their public support from the soundness of the process by which they are reached. At present our process is deficient, and is perceived as deficient, because no official has clear authority and proper resources to manage our government's role in trade and competitiveness issues. Reorganization will help establish a sound and respected process for devising policies to meet the international challenges facing our nation in trade.

<u>Second</u>, the Act would help to relate the activities of the new Department to other domestic and foreign policymaking activities which have an important relation to trade.

(a) <u>The new Act would create mechanisms for resolution of interagency disputes on trade policy.</u>

Congress or the President should ensure that the White House is equipped to mediate disagreements between the new Department and others, such as State, Treasury, Defense, or Agriculture, which may be involved in trade issues. Trade issues touch many areas, and combining the present trade functions in a new department of course will not eliminate all conflicts. No form of organization can do so. The President ultimately must bear responsibility for reconciling the views of different departments. He needs a small, specialized staff to help him in this "honest broker" function. The Act provides him with an advisor and a small White House staff to assist in this function. As a matter of fact, this staff and the advisory function are similar to those in the Trade Representative's Office as originally conceived in 1962.

In addition to creating the White House Advisor, the new Act would designate two interagency coordinating groups.

First, it would leave in place the present Trade Policy Committee, a statutory group which was designed to be the vehicle for collaboration among the various departments that must have a role in developing trade policy. However, the Act would make the President Chairman of this Committee in place of the Trade Representative, who has chaired it in the past. The Trade Secretary would be Chairman pro tempore. The White House Advisor would be Executive Director of the Committee.

In addition, the Act would create a new cabinet level Council on International Trade, Economic and Financial Policy, also chaired by the President, with the White House Advisor also serving as Executive Director. The principal purpose of the Council is not to coordinate views on formation of trade policy as such, but to insure that trade interests are taken into account when international financial and monetary policies are formulated.

Concern has been expressed about the possibility of confusion and overlap between these two groups. One way to avoid this danger would be to carry out the functions of the Trade Policy Committee under the new Council. The Council can serve as the mechanism by which the Trade Secretary/U.S.T.R. coordinates the views of other agencies (such as the State Department, Treasury Department, Council of Economic Advisors) on trade issues, and also as the mechanism by which the President coordinates the views of the various agencies on questions of international monetary policy and their relation to trade interests.

(b) The Act contains provisions designed to ensure that the new Trade Secretary's views are considered by the President and Congress in "international" fiscal and monetary matters.

Since the value of the dollar in relation to other major currencies has a predominant and immediate impact on U.S. competitiveness and on the economies of our trading partners, it is important that the views of the Secretary of Trade and Industry be routinely and institutionally considered when monetary and fiscal policy is made. In many administrations, "domestic" fiscal and monetary policy, the U.S. role in international money markets, and U.S. policies in the I.M.F. were established with little thought about their implications for U.S. trade, and with no participation by the top trade officials.

To coordinate trade policies and other international economic policies, including international financial and monetary policies, the Act, as mentioned, creates the cabinet level Council on International Trade, Economic and Financial Policy in the Office of the President. The Trade Secretary would be a member of that Council. The Act also makes the Secretary of International Trade and Industry the Deputy Chairman of the National Advisory Council on International Monetary and Fiscal Policies. It further requires the U.S. executive director of the International Monetary Fund to consult with the Secretary on matters under consideration by the Fund which relate to trade. These provisions would very likely be effective in achieving coordination of all international economic policies.

The Act does not, however, provide in express terms for the Secretary to participate in the formation of <u>domestic</u> monetary or fiscal policy or to serve on the Executive Branch groups that make such policy. It designates the new Secretary to be the advisor to the President on the impact of non-trade policies on U.S. trade. In my view, the Act should go further and specify that the new Secretary will be a member of any cabinet level committee or working group which formulates domestic fiscal and monetary policy. Such a provision would help insure that domestic economic policies are not again (as in several recent administrations) fixed without consideration of their impact on our trade.

Third, the new Act would make a very important change in the mandate of government officials responsible for our nation's international trade interests. Our trade officials have traditionally had responsibility for achieving access for American industry to foreign markets and for preventing unfair trading practices. The new Act would also charge them with responsibility for improving the ability of American industry to compete in international markets.

Among other things, the new Department would have responsibility for monitoring and analyzing, on an industry sector basis, all the conditions, abroad and at home, affecting success in global competition. The Department would also be responsible for clarifying our policy choices for confronting these conditions. It would be called on to promote cooperation and facilitate consultation and communication between government and the private sector about domestic industrial performance and prospects.

Thus, the Act would end the increasingly artificial separation of responsibility in our government for "international" trade issues and "domestic" competitiveness issues. We may well wish to continue our policy that government generally keeps its hands off the business sector. But we should recognize that "hands off" need not mean "eyes closed." With our eyes open and our government and private sector leaders clearly mandated to improve our trade performance, we can expect that our country's international economic performance will improve.

<u>Fourth</u>, the new Act would take several important steps to equip the new Department with the resources needed for its important new functions.

(a) The new Department would be authorized to establish an Office of Competitive Analysis responsible for monitoring and analyzing the vitality of individual industry sectors and identifying problems and opportunities facing companies in those sectors. The sectoral analysts would also investigate conditions affecting access for American firms to foreign markets (much as called for by S. 144, the bill sponsored by Senator Danforth and others and passed by the Senate).

These sectoral offices would not formulate "industry policy" or attempt to intervene in or guide the decisions of individual enterprises. They would instead serve as resources for business, labor, government officials, and Congress, alerting them to problems and opportunities and assisting them to work together, in their distinct roles, to insure that American industry can compete effectively.

As noted earlier, the National Telecommunications and Information Administration is a good example of a government office with strong resources for promoting the trade and competitive vitality of an important industry sector. Under the new Act, similar (though normally smaller) offices could be established for other key sectors.

The emphasis on industry sectors in the proposed Office of Competitive Analysis properly reflects the fact that industrial competitiveness must be approached on an industry-specific basis. The factors which determine an industry's competitiveness -- such as enterprise size, capital structure, employer-employee relationships, technological innovations, foreign competitive strength, targetting, etc. -- vary widely among industrial sectors and subsectors.

Given the proper resources and mandate, the Office of Competitive Analysis could prove to be a powerful tool for focusing the attention of business, government and labor on competitiveness problems at early stages of their development. The existing Industry Sector Advisory Committees, while a step in the right direction, have simply not proved to be effective.

(b) The Act would call on the Secretary to convene ad hoc, industry sector competitiveness councils to assess conditions in specific industries which may be identified by the Office of Competitive Analysis as encountering significant challenges or opportunities in global competition. The councils are to include representatives of business, government, labor, and other useful private sector persons. The councils would be called on to study the challenges facing their industry and to make recommendations for responses by business, government and labor. The Act gives the Secretary wide discretion in selecting the industries to be studied and in choosing council participants. It gives no binding force to the council recommendations.

This provision in the Act appears to be designed to institutionalize a process for consultation when important industry sectors encounter serious international challenges. In evaluating this proposal, it is useful to remember that a similar advisory group was established for the steel industry in 1977 -- the Steel Industry Tripartite Committee. It performed work on trade and competitiveness questions which was generally approved -- and even praised -- by leaders in industry, labor, and government, and by our trading partners as well. A similar group, the Steel Advisory Committee, has recently been established by the present Administration.

We are in the midst of a search for a process by which we can ensure that our country will effectively marshal all of its resources to compete more effectively in international markets. In my view, the provisions in the proposed Act are one reasonable approach to this difficult problem. (I would, however, recommend caution with respect to the scope of exemptions from the Federal Advisory Committee Act. A reasonable degree of public information about the councils' activities will be important, especially since antitrust laws will not apply to council discussions.)

Because this type of process is new to our country, there has been much controversy over these provisions. Perhaps there are ways to modify this approach that would make it more effective or at least less controversial. In any event, we should not allow disputes over these provisions to prevent progress on the principal goal of this Act -- fundamental reorganization of our trade agencies.

(c) The proposed Act requires the Secretary of the new Trade Department to submit recommendations to Congress and the President for a trade personnel system based on career cadre principles within six months of the Act's passage. Those recommendations must provide for competitive hiring and firing and for employee exchange programs between trade-related federal agencies. They must also designate senior trade positions in such agencies for members of the trade personnel system and create an employee exchange program involving members of the trade personnel system and the Foreign Service.

A career cadre organized around these principles would be enthusiastically welcomed by talented government employees, would increase the effectiveness of U.S. officials in dealing with foreign governments, and would provide greater continuity in the U.S. trade policy.

I strongly disagree, however, with the provision in the current bill that would give the Secretary of State primary authority to appoint State Department personnel to commercial minister positions to perform Trade Department functions in foreign nations. This division of authority between the Trade and State Departments can only lead to conflict and confusion.

Fifth, the proposed Act preserves the best features of the U.S.T.R., which is viewed by substantial elements of the business community, especially international companies, as responsive, fast moving, and effective.

The Act would move the U.S.T.R.'s office intact into the new department. A small office of talented, highly motivated negotiators would exist at the very top of the new department. It would function under a deputy U.S.T.R. who has ambassadorial rank. A similar form of organization has been successful in the Justice Department, where the Solicitor General supervises a small group of lawyers responsible for Supreme Court advocacy and management of the government's appellate decisions.

The Act should clearly state that the current statutory responsibility of the Trade Representative to "report directly to the President and the Congress," "be responsible to the President and the Congress," and "advise the President and the Congress" will remain in effect.

The transfer of the U.S.T.R. personnel, practices, and tradition to the new Department should equip the Department to continue U.S.T.R.'s effective communications with business leaders. The new Department's Secretary should of course take pains to preserve these resources.

Through careful structuring and sound management, it should be possible to incorporate the benefits of U.S.T.R. in the new Department. Thus I do not believe our concern for them should lead us to forego consideration of a new Department, with its many long-range advantages.

* * *

The Act before you is not perfect. I have pointed out some of its deficiencies above. I disagree with other elements of the bill:

- The Act should not create an Undersecretary of International Trade and Industry for Agriculture. Instead, the White House advisor's office should be staffed in a way that would enable it to monitor and protect agricultural interests in the event that the new Department does not adequately take account of them.

> The President or Secretary should have discretion to decide whether to grant the Deputy Secretary ambassadorial status or whether to grant this status to another high-ranking official. The Deputy Secretary is likely to be deeply involved in Department policy and administrative matters, and may not have the time to participate in international negotiations.

The defects I have described, however, in no way reduce my enthusiasm for the Act in general. We should not allow disagreements on minor points to impede passage of a bill with so many major benefits.

In conclusion, Mr. Chairman, I believe the present structure of the U.S. government makes it more difficult than it should be to achieve strong, sensible policies concerning our international trade and the competitiveness of our industry. The Department of International Trade and Industry Act would recognize the great importance of American industry's international economic performance. It would recognize the vital role which our government's foreign and domestic policies play in our industry's ability to compete. The Act would significantly improve the ability of our government to carry out its responsibilities effectively.

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March 19, 1984

The Hon. John C. Danforth
Chairman of International Trade
Subcommittee
Senate Committee on Finance
497 Russell Building
Washington, D.C. 20510

RE: Department of International Trade and Industry Act of 1983

Dear Senator Danforth:

I have reflected further upon two of the issues that were discussed during the hearing on February 27 and feel that they merit further comment. I request that the following material be included in the record of the hearings.

I. Protecting the Interests of the Agricultural Sector in Trade

During the hearing, concern was expressed over whether creating a Department of Trade would retard the ability of the agricultural sector to influence decisions on trade policy. While there was general agreement that agricultural and industrial issues cannot be dealt with within one agency, some speakers expressed a reluctance to "institutionalize" the separation between these interests.

The concerns expressed appear to be based upon an assumption that our current system gives agricultural interests an effective voice in trade policy. There are some, however, who would conclude that our agricultural sector has not fared well in trade policy matters during the last twenty years.

Under both the current system and the proposed bill, the agricultural sector has the Agriculture Department as one vehicle for expressing its interests in the policy process. In addition, the agricultural sector at present advances its interests on trade policy through the Trade Policy Committee (which, as mentioned in my testimony, has not proven to be effective) and the U.S.T.R. Under the system that would be created by the Act, the agricultural sector would express its views through the Council on International Trade, Economic, and Financial Policy and a White House advisor. In my opinion, the agricultural sector's position would be just as strong, if not stronger, under the new system.

Finding an effective way to represent the agricultural sector in trade policy has always been a difficult problem. Our inability to resolve this problem now, however, is no reason not to advance the interests of our industrial and services sectors when the opportunity exists.

II. Presidential Discretion

During the hearing, you asked whether the President could undermine the system that would be created by the Act. You concluded that, if such was the case, organization was not as important for trade as the personality and interests of the President.

I agree that it will always be possible for a President to undermine or evade an organizational structure created by Congress, as some feel the current Administration has done with the U.S.T.R. However, to the extent that the institution and process created by Congress work well and command respect, a President will be less likely to undermine the intention of Congress. I believe that the proposed Department of Trade and new interagency process would work more smoothly, represent greater power, and command greater respect than any of the existing agencies with trade responsibility.

At the very least, the new Act would reduce some of the pressure on the President to circumvent the established system, since it would combine the Commerce Department with much of the present U.S.T.R. There would then be one less voice urging the President to act outside the system.

The system proposed by the Act is not novel. It is very similar to the organization we use for defense policy, with the National Security Council and the National Security Advisor. This organization has worked reasonably well in recent years, especially when the National Security Advisor has been content to serve the role of a coordinator or "honest broker" and has not attempted to make policy or carry out line responsibilities. When the system operates properly, it gives all Departments access to the White House when they feel that the Defense or State Departments are not representing their interests properly. I see no reason why a similar system for trade policy cannot work just as well.

* * *

I am impressed by your very thoughtful attention to these organizational issues, and appreciated the opportunity to participate in these hearings.

Sincerely yours,

Robert Herzstein

Robert Herzstein

Senator DANFORTH. Mr. Hormats.

STATEMENT OF ROBERT D. HORMATS, DIRECTOR, GOLDMAN SACHS INTERNATIONAL CORP., AND VICE PRESIDENT, GOLDMAN SACHS & CO., NEW YORK, N.Y.

Mr. HORMATS. Thank you, Mr. Chairman.

I'm pleased to have an opportunity again to testify before this committee. I think that the subject that you are dealing with, which is how to strengthen U.S. trade policy, is extremely important. It always has been and it's even more important now that we have such a huge trade deficit, and one which appears likely to grow in the next year or two.

I must say that having gone over this legislation I have seen certain improvements in it that I think make me somewhat more comfortable than I was in the past. But I must also say that I have a concern that we may well be tinkering in the engine room while the ship of states is headed onto the rocks. And the reason it's headed onto the rocks is not the organization or lack of organization of trade policy; it is that we have deficits, we have an overvalued dollar, we have shot ourselves in the foot, reloaded, and shot again on export controls. We have done an awful lot of things in the policy area which have made us less able to compete in the world economy. And in going over this legislation, admitting that there are major problems in the way trade policy is conducted, I simply don't see that the changes that are made in organization are going to better enable us to deal with the fundamental monetary, antitrust, export control, and other problems. And that's what I have great difficulty in seeing about creation of a new trade department.

I would say that the second point is one of how do you make the system neater. And I think there are some arguments to be made for making the system neater and easier to deal with.

But let's look at where we were 3 years ago and where we are today. What has been responsible for the profusion of institutions dealing with trade? It hasn't been the legislation. It has been the addition to the Trade Policy Committee, which is under legislation; the addition of a Cabinet Council in Commerce and Trade, which muddies the waters; it's been the addition of a Cabinet Council on Agriculture, which further muddies the waters; and added to that, a SIAGOIP, Senior Interagency Group on International Economic Policy. All of these have made policy a much more confusing problem to deal with. And I think much can be done to simplify it simply by removing those, and doing what the Senate and the House, in two different pieces of legislation over the last several years, have asked the administration to do, and that is run trade policy with the Trade Policy Committee at the head.

And it strikes me that is an important thing. And a lot can be done, like I say, even without any reorganization.

The third point—agriculture is our single most important export. And when one calls this new trade department a trade department, it doesn't include the single most important export of the United States—agriculture. Indeed, the whole trade policy over the last 20 years has been designed to avoid in trade negotiations the distinction between industrial policy and agricultural policy. And now we are institutionalizing it in the way we run our trade policies in this legislation.

And it seems to me, having been in the USTR and argued strongly for making the antisubsidy rules and other rules that apply to industrial policy also apply to trade policy, I am very concerned even though in some cases the Secretary of Agriculture would be the Deputy Chairman of the new group—I'm concerned about the division there.

Fourth point. We, in a curious way, have had in the area of trade policy a more organized White House link and a more organized link to the private sector in that area of international economic policy than many others. When I look at Japan, MITI is the example people give when they say let's trade a trade ministry. MITI, it should be known, does not represent Japan at the GATT. It is this foreign office that represents Japan at the GATT. MITI does not represent agricultural interests. It does not represent financial interest. Indeed, it has constant battles with the finance ministry. So it strikes me that when we look at other countries, we may be well ahead of some of these other countries in the way we have organized trade policy.

These are just a couple of general points. I see the light is on yellow. But let me say this. As I say, some improvements have been made. Indeed, important ones. But it strikes me that instead of spending a lot of time on this—and I admire Senator Roth and others who have focused on this issue for doing this—it seems to me we ought to focus on the underlying problems. And they are the exchange rates. They are the budget deficits. They are the dollar, Exim bank, antitrust. We know what needs to be done. And we ought to get on with the agenda of doing that. And it seems to me that we probably do not need, at least in my judgment, to go through an agonizing reorganization in order to get that done.

Senator DANFORTH. Thank you.

[The prepared Statement of Robert D. Hormats follows:]

Testimony of Robert D. Hormats
Vice President, Goldman, Sachs & Co., and
Director, Goldman Sachs International Corp.

Before the Subcommittee on International Trade
of the Senate Finance Committee
February 27, 1984

Improving the Organization of
International Economic Policy Making

International economic developments have a clear and direct impact on the U.S. economy. They are also major factors in U.S. foreign policy and national security. The jobs and well-being of a growing number of Americans are determined by what happens in the world economy, and by the effectiveness with which U.S. international trade, investment and financial interests are pursued. Thus, the way in which U.S. international economic policy is formulated is not merely a question of Washington bureaucratics. It is one of major significance to workers, firms, farmers, and consumers in all parts of the country.

There has been a recurring debate in the United States over the last 30 years as to the best institutional arrangement for formulating a coherent, well coordinated, forward-looking, and effectively implemented U.S. international economic policy. That period can best be characterized as one of persistent institutional experimentation and changing structure. A few of the experiments have proved successful; the majority have not lived up to expectations.

It must be said at the outset that constructive organizational arrangements and rearrangements can improve prospects, but are no substitute, for good policy. Thus, a debate over reorganization should not divert attention from what should be the primary objective in the area of international economic policy -- improvements in the policy itself. Moreover, a perfect and permanent institutional structure in this complex and rapidly changing arena is probably not attainable. Because organizational styles and personalities differ from administration to administration, the best of organizational approaches in one context and in one administration may not be appropriate for another. And no institutional arrangement, however well designed, can succeed unless staffed by knowledgeable individuals of good judgment who work well together, have the full support of the President, and maintain credibility within the policymaking process and the private sector.

Against this background, how can the United States best organize itself to make and implement an effective international economic policy?

° First, because of its position at the crossroads of domestic economic and foreign policy and its major importance to both, international economic policy requires greater Presidential involvement than in the past. An Assistant to the President for International Economic Policy is needed to permit and encourage the President to play an active and effective role. He or she should be a member of the Cabinet Council on Econonic Affairs (or its equivalent), the Trade Policy Committee (TPC), and the Council of Economic Advisors (CEA), and be an associate member of the National Security Council. The Assistant would not attempt to play the role of U.S. spokesperson on international economic policy. Nor would this individual be the exclusive conduit for recommendations to the President (which would normally go through existing channels), although his or her views would be recorded in these recommendations, particularly as to consistency with respect to other aspects of U.S. international economic policy.

The Assistant would be able to communicate directly with the President to brief him on international economic developments, make independent recommendations, and advise him of the implications of policy recommendations in other areas (e.g., fiscal and monetary, antitrust, and foreign policy) for international economic policy. The Assistant would take primary responsibility for ensuring that relevant agency interests were adequately represented in the decision-making process, and that when interagency groups met to discuss matters that relate, even if only indirectly, to U.S. international economic interests, they considered the international economic policy implications of their decisions--for example, the effects of proposed changes in environmental regulations or tax policy on U.S. productivity and international competitiveness, or the impact of proposed sanctions against another country on U.S. industry and agriculture.

The Assistant would also provide, for Presidential and Cabinet-level consideration, recommendations on how various issues should be staffed. For this purpose he or she would meet monthly (or more frequently if necessary) with key Cabinet or sub-Cabinet officials. And the Assistant would ensure follow-up of major decisions by working with such officials.

Because the Assistant would need to play an integrative role--for instance, to assess the trade implications of regulatory policy, or the domestic implications of export and administrative policy--he or she would need a <u>small</u> staff capable of independent analysis and of meeting regularly with the agencies to ensure that their officials take adequate account of policy inter-relationships.

° <u>Second, a Cabinet-level International Economic Policy Council (IEPC), chaired by a Cabinet member designated by the President, should have primary responsibility for coordination of international economic policy.</u> Specifically, it would facilitate the development of U.S. international economic policy and ensure that decisions in each area of international economic policy adequately take into account the close links among trade, monetary, development, and investment issues, and between these and domestic foreign policy matters. In this respect it would not substitute for, but rather provide guilelines for, and promote consistency among, interagency groups with specific and more focussed mandates in these areas. But it could, on subjects which transcend existing interagency committess (e.g., the debt/trade/financial foreign policy linkage), ask for interagency papers and make recommendations.

Its own mandate should be to: (a) set broad policy objectives and priorities; (b) identify and analyze interrelationships among key issues to ensure policy consistency in the decisions of Cabinet members and interagency committees; (c) identify issues likely to arise in the future and ensure that they are being adequately addressed; (d) determine (where such matters are in dispute) which Cabinet member or interagency group will have the policy lead in developing positions on major issues; (e) reconcile any differences among interagency groups or Cabinet members; and (f) decide how to present unreconciled differences to the President.

On occasion, particularly in advance of economic summits, major ministerial meetings and Presidential meetings with major foreign leaders, the group should meet with the President to provide a comprehensive briefing. Such briefings would avoid _ad hoc_ approaches to the President, and give him an opportunity to provide guidance to all key Cabinet members at the same time.

° _Third, institutional arrangements for making and implementing trade policy should be strengthened._ The creation of the Office of the U.S. Trade Representative in the Executive Office of the President, and past efforts to broaden its mandate, reflected a broad consensus among the Executive Branch, Congress, and the private sector on the need for the chief U.S. trade policymaker to sit _above_ the normal bureaucratic tug-of-war, and _close to the President_, in order to reflect and forge a common position on the basis of the various interests involved in U.S. trade policy. This was considered particularly important when a coherent interagency-produced strategy was required to reflect a wide range of interests in preparation for, and during, a round of trade negotiations. At the same time, there was broad recognition that such an office, operating within the Exeuctive Office, could not be large enough, and was not an appropriate institution, to implement trade policy. That responsibility was given to the Commerce Department, whose role has been strengthened in recent years.

However, ambiguities and duplication have resulted from a considerable blurring of the line of demarcation between policy-making and implementation. And more than occasional transgressions of the office of the USTR and Commerce on one another's "turf" have added to friction. These have given rise to proposals for the consolidation of the trade function into a single Cabinet agency. There is, on organizational grounds, considerable logic to many of these proposals. As their sponsors effectively argue, they are "neater" than the present divided arrangement. They would reduce current interagency friction and the number of "stops" the business community must make on trade issues (recognizing, of course, that State, Agriculture, Labor, Justice, CEA, and Defense would continue to be important "stops" on many trade matters). And creation of a Trade Department would be of considerable symbolic importance.

But the Trade Department concept also raises a number of questions regarding its potential impact on policy. Will the voice in the Cabinet for a stronger trade policy be strengthened or weakened if the two most vigorous spokespersons for trade, the Secretary of Commerce and the USTR, are combined into one? Is it desirable to weaken or strengthen the direct, institutional White House link to trade policy, accepting the fact that this link has not always produced the desired amount of Presidential support for U.S. trade interests? Will a Trade Secretary, who is likely to be at the lower end of the Cabinet "pecking order," have more interagency influence on such important trade-realted issues as tax, export control, and antitrust policy (involving respectively the secretaries of Treasury of Defense, and the Attorney General) than the USTR and Commerce Secretary combined --recognizing, of course, that they have not always been victorious in disputes in these areas?

Will creation of such a department tend to downplay the importance of agricultural trade, which is a significant percentage of U.S. exports, by providing for only a nominal staff to deal with agricultural issues, and by separating responsibility for agricultural trade--which would, in some proposals, be in the hands of the Department of Agriculture--from industrial trade policy? Would there not be a danger of friction between industrial and agricultural trade policy, as opposed to trying to ensure that broader trade rules, such as anti-subsidy agreements, be applied to agricultural trade?

And, in light of the experience of CIEF, would it be possible for a new Trade Policy Committee, headed by a Trade Secretary, as included in some proposals, to retain its influence or independence vis-a-vis other interagency groups if its leader is not (like the USTR) institutionally in the White House. Or would it, like CIEP, ultimately be folded into a group with a broader mandate headed by another Cabinet member, perhaps the Secretary of the Treasury?

In addition, the question must be asked whether the strong statement of commitment to a more assertive trade policy, which creation of a Trade Department is intended to represent, would not be diluted by the concurrent efforts of many in the executive branch and Congress to pass an Export Administration Act which would hamper U.S. exports, and by other existing legislation which does likewise. Would it not be more appropriate to devote the considerable effort which would be needed to create a new trade department to addressing such <u>substantive</u> issues as the U.S. budget deficit and its impact on high interest rates and the dollar, antitrust legislation and guidelines, regulatory policies that reduce U.S. competitiveness, and support for the Export-Import Bank--all of which have a considerably greater impact on U.S. trade performance than organizational structure?

Thus, while creation of a trade department is based on a considerable amount of organizational logic, it raises important questions about the wisdom of weakening the link between the chief U.S. trade policymaker and the White House at a time when <u>greater</u> Presidential involvement in, and support for, U.S. trade objectives is necessary. Now, more than ever, with regulatory, antitrust, export control, tax, and monetary issues impacting significantly on U.S. trade performance, a White House leadership role and effective coordination of policy to promote consistency and ensure faithful implementation are of major importance.

There are essentially two institutional approaches to promoting the well coordinated, assertive, and activist trade policy which most of us seek. One is to improve and strengthen the current institutional structure. The other is the create a new Department of Trade. I prefer the former. There is a greater likelihood, although clearly not a certainty, that the current White House-based trade office (the Office of the U.S. Trade Representative) supported strongly by the President, given a clear mandate that is respected by other agencies, and working with a strengthened Commerce Department, will carry more weight and be more effective on trade policy issues than a Trade Secretary heading a separate department, who would find it hard to compete with, much less coordinate, other Cabinet members and, perhaps, even to protect his or her interagency committee.

To make the current structure function more effectively, key members of the executive branch and Congress concerned with trade should first endeavor to clarify the currently legislated mandates for Commerce and the USTR in order to minimize duplication and ambiguities. While it is unlikely that these can be eliminated completely, a significant reduction would lessen the uncertainty and confusion within the bureaucracy. In addition, the Administration, consistent with its proclaimed objective of consolidating trade policymaking functions, could reduce the considerable confusion resulting from its having divided responsibilty for trade among the Trade Policy Committee, the Cabinet Council for Trade and Commerce, the Senior Interagency Group on International Economic Policy, and the Cabinet Council on Food and Agriculture. If the TPC, as Congress intended, were given clear responsibilty for developing trade policy, much of the current duplication could be reduced without the need for a long process of legislated reorganization.

If it can, once again, be clarified that the USTR, as chair of the Trade Policy Committee apparatus, is the chief trade policymaker and coordinator--which means that his role in the above-mentioned areas, such as monetary and antitrust policy, should be strengthened--then the Office of the USTR should allow other agencies to assume a greater portion of the execution function by, for instance, delegating a greater share of the negotiation role to Commerce, State, and Agriculture in order to take advantage of their expertise. That would strengthen both the USTR's interagency leadership role and the participation of other agenices. It would also enable the USTR to use its relatively small staff in the most efficient way.

The role of the Commerce Department could be strengthened further by increasing its capabilities to analyze sectoral developments, and to identify the impact on individual sectors of proposed macroeconomic and microeconomic policy changes. Improving this capability would also enable that Department to assess better the impact on the United States of various types of foreign government support, or "industrial policies." It would, in turn, be well positioned to recommend ways in which the United States might respond to them, and to draw on those aspects of the approaches of others that might be applicable, in some version, here.

As the influence of government support measures on trade increase, international understandings will be needed on the type, and degree, of such support (for investment, research, product commercialization, and industrial rationalization) which should be considered legitimate and, perhaps, be encouraged. Where do such practices distort trade, and where do they provide a net benefit to national economies by improving prospects for smooth adjustment or industrial revitalization, with a minimum of human and economic cost? To be able effectively to reduce distortions causes by such policies, and to work out a modus vivendi among industrial policies, such a strengthening of government analytical capacity is needed.

And, the Commerce Department, and indeed the U.S. government as a whole, needs to increase the number, and expertise, of officials responsible for, and attentive to, developing nations. While new opportunities exist for exports to such countries, growth prospects in developing areas depend heavily on adequate financing, development assistance, and expanding trade opportunities for their products. Thus, a special section of Commerce (and a new inter-agency committee, perhaps under the IEPC) could well be devoted to this area. Working with the Agency for International Development (AID), State, Treasury, and Eximbank, it could encourage greater attention to U.S. economic relations with the developing world, to the link between the prospects of these nations (and our support for their development) and U.S. trade interests, and to developing new trade opportunities in the Third World.

If, however it is decided to establish a Department of Trade, Congress should explicitly mandate a White House link that directly involves the President on key issues. The Secretary of Trade should head the Trade Policy Committee, and it should continue to report directly to the President. As chairman of this Committee, the Trade Secretary should have a White House office with a small staff to work with, and be in a position to insist on consistency among the trade-related policies of all agencies--using White House leverage if necessary. He or she should sit on the board of Eximbank and IPIC, and, through the International Economic Policy Committee, be involved in monetary, antitrust, export-control and other issues which affect U.S. trade performance.

To guard against the TPC's being watered down or weakened as the result of the removal from the White House--after a Trade Department is created--of the USTR Office (which now serves to protect the TPC), Congress should insist both on a continutation of TPC's statutory base, and, through oversight hearings, on other Cabinet members' using the TPC (and its substructure) as the locus of trade policy decisions.

A new Department of Trade, if it is to give trade policy fresh vigor, cannot simply be the result of a rearrangement of offices in the Department of Commerce. It would be far preferable to draw on the current strengths of the Commerce Department but utilize the structure of the Office of the U.S. Trade Representative which: has both a regional and a functional orientation; reflects industrial, agricultural, and service interests; deals with international commodity issues; and provides for a number of people at the undersecretary level able to conduct broad mutlilateral negotiations as well as highly focused sectoral negotiations. Like the German Ministry of Economics, it should also organize itself so as to provide credible economic analysis which guides its decisions in order to avoid vulnerability to interest groups whose case is weak and to provide strong support where it is warranted.

An office of the U.S. Trade Negotiator, directly under the Secretary of Trade (much like the Director of the U.S. Arms Control and Disarmament Agency is under the Secretary of State), should work directly with all relevant interests within the Trade Department and with the other agencies. Like the current USTR, he or she should be in a position to make independent recommendations (which reflect the views of the TPC as well as personal judgments) to the President through the Trade Secretary. The new structure could draw on Commerce, the USTR, Agriculture, State, Labor, Treasury, and CEA for personnel.

° Fourth, there needs to be a more systematic method for close consultations among business, labor, agriculture, and government. One of the great difficulties the United States has in the international economic arena is the sometimes standoffish, sometimes adversarial, relationship between government, business and labor. The roots of these divisions are well known and, perhaps, given our history, understandable. But enhanced U.S. competitiveness requires at least a much greater degree of exchange of information among these groups. This does not mean that the United States needs to emulate the practices of other countries where relationships are considerably closer and lines of demarcation less clear. But many sectors of the U.S. economy could profit by reflecting, individually and together, on where changes in their own practices and greater cooperation will help to strengthen productivity and international competitiveness.

One place to start is for government, business, and labor --in sectoral groups and more broadly--to consult on a more regular basis in order to assess the implications of their current practices on U.S. international competitiveness and to identify changes which could lead to improvements. In the trade area there is a structure for consulting key groups (industry, agriculture, labor, services, consumers, U.S. investors abroad, and those with commodity interests) before decisions on negotiating policy are taken.

The same systematic consultative process might be applied to other decisions affecting U.S. international economic interests, e.g., domestic regulatory, tax, and export financing policies. Such a dialogue can shed more light on how to enhance U.S. competitiveness, to respond to the practices of other nations, and to avoid new legislation or regulations which unwittingly undermine U.S. competitive capacity. It might be useful, as a start, for the U.S. government--both the Congress and the executive--to require of themselves an informal trade, or competitiveness, "impact statement" to identify the impact of existing and planned legislation, regulations, and administrative decisions on U.S. industrial competitiveness and export interests.

° Fifth, a systematic program to train and maintian a corps of international econ)mic exports especially trade negotiators, is needed for its own sake and to match the experience and talents of counterparts in other countries. One characteristic of the U.S. system, and indeed in some cases one of its major strengths, is the ability to attract to government new people who bring with them fresh ideas and approaches. But we need also to maintain a corps of trained people, experienced in dealing with major international economic and trade problems, and in negotiating--particularly in the area of trade.

A training and experience-building program could well involve an organized exchange among various agencies, and with the private sector--for example, rotating officials at Commerce, Treasury, the USTR, State, Agriculture, and Labor and give them experience with U.S. corporations, labor unions and consumer groups. Individuals who negotiate abroad would gain experience in dealing with domestic matters: for instance, an individual who negotiates on steel could gain experience in the area of Commerce which deals with domestic steel problems, or have spent a year with a steel company; and individuals dealing primarily with domestic policy, such as regulatory policy, would gain some experience in the trade area so that they can understand the international ramifications of their decisions. Such a program would also include advanced economic training as well as language training.

° Sixth, a smooth working relationship between the executive branch and the Congress in the area of international economic policy is essential. Congress has both a substantial interest in international economic policy and a clear constitutional mandate to involve itself in it, particularly in the area of trade. While the committee structure in the Congress will clearly mean that many sets of hearing are held on the component elements of international economic policy--just as there will be no one group in the executive branch totally responsible for it--it will be helpful (by saving time and promoting consistency) for the Congress to hold more joint hearings on particular subjects in this area.

More broadly, it would be desirable for the Congress, perhaps every two years, to hold a series of joint or sequential hearings by key committees. These hearings would enable Congress to look comprehensively at the entire scope of international economic policy and to obtain testimony from both the Administration and the private sector. It could then publish a comprehensive set of documents on U.S. medium-term international economic policy interests and objectives. Such hearings would help the Congress and the executive branch jointly to establish broad policy consistency. While not "locking in" either, it would enable both to be guided by a broad consensus.

° Seventh, it would be useful to revive the Report on International Economic Policy, which was published in the past by the Council on International Economic Policy (CIEP) but discontinued upon its demise. The report was extremely helpful in explaining and pulling together the various components of U.S. international economic policy and describing developments in the world economy, the stake of the United States in it, and what the government was doing to pursue U.S. international economic interests. Such a report could consolidate the several reports now being published by the U.S. government on, for instance, implementation of the Trade Agreements Act, East-West economic relations, and the work of the National Advisory Council (NAC). This would also further help to present a more coherent policy. The very writing of the report could help to clarify a number of differences within the U.S. government.

An important addition to this report would be a quantification of the imporatance of exports to each state, to key economic sectors, and to the economy as a whole. The Commerce Department publishes such figures, often with long delays. These, if kept current, could help to improve public understanding of the importance of a healthy world economy, an effective U.S. export effort, a competitively valued dollar, support for Eximbank and development assistance, and relaxation of legislative impediments to U.S. trade. In short, it would strengthen public understanding of the need for a sound and active international economic policy for the United States.

Senator DANFORTH. Mr. Malmgren.

## STATEMENT OF DR. HARALD B. MALMGREN, PRESIDENT, MALMGREN, INC., WASHINGTON, D.C.

Mr. MALMGREN. Thank you, Mr. Chairman. I'm honored to be invited to speak on this rather thorny problem.

I have had occasion in the past to comment on this proposal in another forum before Senator Roth's Government Organization Committee.

Some members of this committee are well aware that I have served under four Presidents, beginning with President Kennedy, in this area. And I was an adviser to some members of this committee on these same issues. I have given many years' thought to this.

Moreover, I list in my prepared statement, which I submit for the record, at least eight reviews within the executive branch of what should be done about trade policy that began in 1962, major reviews, each of which came to the same conclusion—that there should not be a Department of Trade, and that there should not be a reallocation of effort to the Commerce Department, but rather that there should be a continued USTR.

Now what is it that can be found in all of these reviews? What wisdom emerged over all those years, in the face of opposition by every President, from Kennedy onward, to having an STR; in the face of the fact that every President tried to move the function away from him to somewhere else, anywhere else, to get the lightning far from him.

What really lay behind all this was the creation of STR in the first place; namely, the feeling of the Senate Finance Committee and House Ways and Means Committee that there was a need for a constitutional bridge between the powers of the Congress to regulate foreign commerce and the powers of the President to negotiate with foreign powers. It was felt in Congress that this had to be handled with a rather small group that was very close to both ends of Pennsylvania Avenue.

And it's that critical nexus which is important also in negotiating with other countries. Other countries will not take as credible an American negotiator that does not have that bridging capability, and that capability must be close to the President, and must represent all of the trade interests of the United States.

Now there may be reasons for changing this approach after all these years. But we have had 20 years of repeated reemphasis of this particular way of handling things, which, as I said, was fathered by the Finance Committee, and fathered to some extent by the House Ways and Means Committee in 1962, over the strong opposition of President Kennedy.

I have gone over my notes, since I have been involved in every one of these reorganization proposals since 1962. The Reagan administration proposal is essentially the same as President Kennedy's proposal of 1962; namely, to put industrial trade into the Commerce Department, and to leave agriculture separate. And exactly that idea was rejected by the Congress because it is impossible to negotiate for the United States, splitting off a big chunk of our trade, as Mr. Hormats has said. And, indeed, this has to be detrimental to our farmers' interests, to separate agriculture away.

There are many options. I list some of them that have been considered over the years, including a Department of Economic Affairs that links domestic and foreign issues; a Department of Foreign Trade that links all foreign trade, including the financial aspects, Eximbank and so forth; but also monetary policy, financial policy, aid policy, which if you are going to do trade, you have to do it altogether. Or a relinkage of international economic issues with national security in a super State Department, or the idea of a Department of Industry or some new economic czar in the White House. The problem with all of these is that as an institution gets bigger, it gets further and further away from the President, and somebody else has to then take over the role of coordination and policy leadership and enforcement for the President. The present proposal which we are considering, I'm afraid in its present form at least, would require the recreation of a new STR called something else to do the same thing. Someone would have to advise the President, and shield him from appeals; someone would have to deal with all of the varying interests that would transcend agency lines, and to negotiate with other countries at a high level of credibility.

In my view, we don't need reorganization right now. What we need is a policy. In Washington it is very popular to reorganize when you don't know what to do, because it looks like you are busy when a reorganization is underway. Reorganization proposals are a way for Congress to force the President to think what it is that he is trying to accomplish.

But when you do know what to do, my own experience over 20 years is that you don't change anything; you just get on with it. Change tends to ruin morale and get everybody nervous, and destroys the fabric of cooperation.

Right now we have intense jurisdictional competition between the agencies, a level of competition, which, I think, is shameful. We do not have teamwork at a time when our country needs teamwork. And that is not a fault of organization, I think, so much as a fault in the willingness to cooperate among the various agencies.

During my time in the administrations of over four Presidents, we never had anything like the present competition.

So in conclusion I think it is possible to improve the system at this time, and then give a longer range examination to the fundamental issue of reorganization. But how do you do it better? Frankly, I would go in the reverse direction, myself. I think the STR has become too large and has too many specialists. The problem of jurisdictional competition is that the specialists in one agency are trying to beat out the specialists in the other agency with facts and position.

I would reduce the size of STR. I know no one ever does that in Washington, to an agency. But eliminate all the specialists. There should be no commodity specialists, no industry specialists, no technology specialists. There should be only generalists whose job it is to find who is telling the truth by asking the other agencies and by asking industry and labor and other people outside the Government as to what the real facts are. We need coordinators. They should not be specialists.

Thank you.
Senator DANFORTH. Thank you very much.
[The prepared statement of Harald B. Malmgren follows:]

STATEMENT OF HARALD B. MALMGREN
BEFORE THE SUBCOMMITTEE ON INTERNATIONAL TRADE,
COMMITTEE ON FINANCE,
ON THE ORGANZIATION OF THE EXECUTIVE BRANCH IN
INTERNATIONAL TRADE

February 27, 1984

I am honored by your invitation to appear before this Committee to give my views on the organization of decision-making in the Executive Branch in relation to trade and international commercial relations generally.

As some members of the Committee on Finance will remember I have served under Presidents Kennedy, Johnson, Nixon, and Ford, and as an adviser to members of this Committee, dealing with our economic and security relations with other nations. On behalf of our nation, I negotiated with many foreign governments and dealt extensively with their bureaucratic systems as well as their political leaders.

Moreover, I was involved in a long series of re-examinations of our own decision-making structure, including:

--- a 1966-67 Executive Branch review of the role of the STR office and the potential need for a Department of International Trade (the conclusion was to continue the central coordination role of STR and to reject the idea of a Department of Trade)

--- review of a 1969 effort by President Nixon and Commerce Secretary Maurice Stans to merge STR into the Commerce Department (the Congress informally rejected that proposal and insisted on continued STR autonomy)

--- a 1969-70 Presidential review, under the President's Advisory Council on Executive Organization, of the organization of the Executive in management of foreign economic policy (the result was creation of the Council on International Economic Policy, in the Executive Office of the President, but continuation of a separate, autonomous STR)

--- a 1973-74 effort by the Office of Management and Budget and the Secretary of the Treasury to bring about a merger of the Council on International Economic Policy (CIEP) and STR (the conclusion was to retain STR as an independent policy agency with line authority over trade)

--- a 1974 review by this Committee on Finance of the role and authority of the STR in connection with the Trade Act of 1974 (the conclusion was to strengthen the STR by raising his status to Executive I and to clarify in law that he is the sole, ultimate trade policy advisor to the President)

--- a 1975 review by President Ford's staff of the respective roles of STR, CIEP, and the Cabinet agencies (the conclusion was to continue the independent, autonomous status of STR)

--- 1977-78 reviews of the STR by President Carter and OMB, with the intention of merging STR and Commerce (the conclusion was to continue the existing arrangements)

More recently, the Reagan Administration has presented the reorganization proposal that is now before you, to create a new department that would incorporate much of the Commerce Department with some of the policy and negotiating authority of the USTR. This particular proposal is actually more or less the same as a proposal made by President Kennedy in 1961-62 to move trade policy leadership from the State Department to the Commerce Department. At that time, the Senate Finance Committee and the House Ways and Means Committee rejected the Kennedy proposal and forced the creation of the STR as an agency to support him, to be located in the Executive Office of the President.

Why is it that STR has survived for so long, under so much review, in the face of periodic pressure of all Presidents from Kennedy to Reagan to move STR out of the Executive Office of the President?

The answer has always been essentially the same: It was felt imperative to keep agricultural and industrial trade issues together, and to provide a meaningful appratus for participation in policymaking of representatives of labor as well as of industry and farm organizations. It was also felt imperative to have small liason group to provide a bridge between the Congress, with its Constitutionally delegated right to regulate foreign commerce, and the President, with his Constitutionally delegated right to negotiate with foreign governments.

Over the years, the USTR has evolved to carry out three broad functions:

1. provide a bridge between Congress and the President

2. coordinate policy and provide advice to the President based on advice from relevant Cabinet Departments, from Congress, from the various public advisory bodies, and from individual representatives of farm, labor, industry and service organizations.

3. conduct top level negotiations with other nations

This three-part role has been disrupted in the last two or three years by an array of Cabinet Council coordinating bodies that appear to me to be inconsistent with trade legislation. There is now a higher degree of confusion and inconsistency in policy and in commercial negotiations with other nations that is necessary. Top-level foreign officials often ask me who is the final authority on a given issue, and I have to reply that the leadership role is indeed fractionated.

There is now hot jurisdictional competition between agencies, when what our country needs is teamwork and a sense of common purpose.

The issues are increasingly complex, as the role of governments throughout the world grows in the management of trade; and as the U.S. economy rapidly becomes more interactive with the world marketplace. Now the commercial issues include services, and the international flow of technology both in and out of our nation.

Thus, it never made sense to separate agriculture from industry in our trade decision-making. Congress, and almost every trade expert who looked closely at the issues, came to that same conclusion over and over again since the early 1960's. It still makes no sense, and that is one reason why the Executive Branch proposal before you is wrong. But the issues of services and technology, and of the financial interaction with trade, are making the need for broad coordination even more

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important today.

To split off industry and investment issues, and put policy together with Presidential-level negotiations in that single, industrial agency, would make the present problem of coordination worse, not better. A national perspective would be lost, and a more narrow industrial perspective would be taken. Agriculture, finance, services, and other important areas of our economy would become orphans or stepchildren. Diffusion of responsibility would become greater, not less.

Are there any other alternatives? Clearly, there are many. They have all been considered, and re-considered, year after year since the 1960's, including:

1. a Department of Economic Affairs, linking domestic with international economic issues?

2. a re-linkage of international economic issues with national security affairs in a stronger foreign policy agency, or super-State?

3. a Department of International Economic Affairs, linking trade, aid, investment, finance, monetary policy, export controls, energy oceans policy, transportation, etc.?

4. consolidation of all trade or commercial relations in a

Department of Trade?

5. consolidation of trade in industrial goods with domestic industry policy, in a Department of Industry, Trade, and Investment, an American replica of Japan's MITI?

6. a new structure for the President's Executive Office, or the White House, to supervise along the lines of one of the alternatives from 1. to 5. above.

Do other nations know something we do not? Are they better organized? It is difficult to compare our system, with its Constitutional Division of Powers, to Parliamentary, cabinet-type governments. Nonetheless, in all of the major governments I have dealt with, there is some close-knit coordination at some level, usually near the top, based on a small staff, or a small interagency teamwork approach. However, this is not true for Japan. The myth of Japan, Inc. is that of a government completely integrated, with the MITI Minister presiding. The reality is far different. Power is widely diffused among Ministers, with MITI's powers clearly in decline. In my opinion, Japan badly needs an STR apparatus.

If you wish, in questions, to address how other governments organize themselves I will be happy to discuss this. Suffice it to say that the closest industry-finance-government cooperation in trade can probably be found in Paris, not Tokyo. This is based on a notion of partnership, or at least an absence of adversary relationships, between business and government. A French Minister can visit another nation and negotiate on behalf of a designated French company or consortium without anyone worrying about favoritism or discrimination. Do we really wnat to introduce the idea of "chosen instruments" here, with the government picking who gets what contracts abroad?

Apart from all these considerations, let me also mention the President's own needs. If a DITI were created, something like STR would have to be re-invented to advise the President on interagency quarrels. In numerous papers for various Presidents over the last twenty years, I have repeatedly concluded that the President needs, for his own protection:

(1) someone to act as arbitrator between contending forces in the Executive;

(2) someone to enforce Presidential decisions and policy guidelines;

(3) someone to handle appeals and manage relations with Congress and with private and public bodies outside the Federal Government.

These have been among the most important functions of the USTR until recently. Such functions should be carried out next to the President.

Reform is needed, but the proposal before you will not solve the present problems of disarray and jurisdictional competition.

Rather, what is needed is to restore the authority of the USTR, or broaden it to cover the new commercial issues like services, finance, and international technology transfer.

To do this, and make USTR more effective, and at the same time reduce interagency competition and restore a sense of teamwork, is not difficult. It takes no major reorganization.

In my judgment, the staff size of USTR has become too large. There are too many specialists on particular products or industries or commodities.

A policy and negotiating group, which provides leadership to the agencies and balanced advice to the President, should not have a large number of specialists. Rather it should have a small number of generalists who concentrate on coordination, on negotiation, on providing leadership for the team's efforts, and on taking a national perspective for the President and the Congress. Specialists take the perspective of a single industry. The policy leader and the negotiator must always put the narrow interest in a much wider context. In other words, the specialists should be in Commerce, Agriculture, Treasury, Labor, Transportation, and so on, and the USTR should not try to compete with them on production of the same facts and opinions.

If the Executive Branch were to revert to the legislative mandate, and if USTR were leaner and meaner, much of the presdent confusion and intense, disruptive interagency competition would be swept aside.

Reorganization always looks good in Washington when you don't know what else to do. The process of reoganizing looks busy, and buys time to develop a new policy. When you do know what to do in Washington, the last thing you want is reorganization, which simply creates confusion of responsibility, lowers morale, and slows you down.

The real problem is that we have to devise a new policy for the 1980's and 1990's. If we can figure out where we want to go, then it is not hard to figure out how to get there, and how we best set up the structure of leadership. Reorganization should not be a substitute for policy. A clear policy makes organizational issues seem small.

Senator DANFORTH. One of the arguments for the proposed new department is that other countries have a much more coordinated way of dealing with trade issues than does the United States. We frequently point to Japan and to MITI with the thought in mind that this is a totally organized, highly coordinated juggernaut, which is bringing all the forces of Japan to bear in a common undisputed trade policy. We assume that they, therefore, are much stronger in trade and in trade negotiations than we are in the United States.

Is that perception correct?

Mr. MALMGREN. Mr. Chairman, if I may comment. As Bob Hormats has already said, I think the case of Japan is a good one. The power of MITI is clearly declining steadily year after year as the influence of the Japanese Government on industry declines, in that the major firms are becoming bigger and bigger and they are borrowing money from abroad, and they are moving out and becoming rather autonomous. Many of them are refusing R&D funds from the Government. They are becoming more independent. Moreover, the major new developments in the Japanese economy like the Science and Technology Agency programs or the NTT programs are not in the hands of MITI, and there's a lot of trouble in coordinating.

MITI, in fact, doesn't negotiate for the Japanese Government. And this is a problem for us and them. So they have had to create, in effect, an STR type of organization which they had in the last World Trade Round that Bob Hormats dealt with to some extent. The so-called MTN's. They had a special trade ambassador, Mr. Ushiba, who became, in effect, their spokesman. They have the same problem we do. They are getting very big and very sprawling. They have found that the solution was to do something like what we were doing. And, frankly, there are several other governments that have done the same.

Now there are different experiments. The one government that really is coordinated at the top, if you want it this way—I will explain it in a moment—is the Government of France. Now the reason that it can be done in that system is that all power is pretty much concentrated in the Ministry of Finance. The Ministry of Trade people are really under the Ministry of Finance's guidance. And there is simply one decisionmaking system tied in with the Elysees staff, the President's staff. Five or six people can decide everything.

And what they decide is which company will get which contract in overseas sales. Now do we really want that kind of arrangement? Do we want chosen instruments? Do we want that kind of discrimination? It's possible in France because Government and industry are very, very close, and interactive; often owned by the same people. That is to say the Government. And the banks are, of course, Government-owned.

It's possible to really integrate then. But do we really want bureaucrats running the economy? I think the answer is clearly no. So long as we want an adversary relationship and a delegation of power that separates what people can do as business people, what people do as labor representatives, what Government can do, what Congress can do, what the Executive can do, what the courts can do, as long as we want that kind of system, then we can't try to emulate somebody's system that has it all in one place. It would destroy what we are trying to accomplish.

What we need is an American solution. And I think the Congress created that.

Senator DANFORTH. Mr. Herzstein, would you like to comment?

Mr. HERZSTEIN. Senator, I don't think the Japanese Government is lacking in its division of authority, rivalries, and problems by any means. I think the advantages they do have over us in trade policymaking are twofold. One is much greater continuity among their high officials. The second is a much closer communication between the Government and the key industry sectors that are affected by trade policy. Both of those problems would also be addressed to some extent by this bill.

But I agree that they haven't solved this problem of centralized responsibility. That's no reason we shouldn't try.

Senator DANFORTH. Mr. Hormats.

Mr. HORMATS. Yes. I would simply add a couple of points. I think Bob Herzstein is right. That the continuity and communication are important in Japan. They do have their divisions. And when one goes over there and negotiates, one frequently finds, much to our frustration, that one ministry, like MITI, says it can't do something, for instance, in tobacco because the finance ministry or the budget ministry or the agricultural ministry won't approve it. And they don't have one-stop shopping. If you really want it, you have to go to a lot of them. It's like the sort of smokescreen of the negotiating process there.

The British—and here is an example of a country which did through the Board of Trade try to do something similar—and that, essentially, was not the greatest of successes for a variety of reasons. And in part it's because that was almost isolated from—certainly didn't play a key role in—the domestic policymaking process. And you had an over-value panel, you had terrible inefficiency in the British economy, and it simply was not able to get its influence across to make the fundamentals work better so that Britain could trade more equitably.

Senator DANFORTH. Senator Roth.

Senator ROTH. Let me start out by saying that I agree that we should not try to merely imitate any other country in their approach to trade. What we are trying to develop is the best vehicle that will enable us to have strong policy and strong advocacy of trade.

I'll be candid on one of my concerns. The Washington bureaucracy never wants to change. By that I mean they always argue, well, let's do what we did in the past. But I think the fact is that the performance shows that what we are doing is not adequate. I agree that much of that poor performance is attributable to policy, the dollar—the strong dollar—and other factors.

But I feel strongly—and most people who have been involved in either private or governmental undertakings agree—that organization is critically important. It's not going to solve all of our problems. But if you take the position that organization isn't important, then you will do nothing about anything. And I don't think anybody is advocating that.

One of my concerns has been and continues to be the point you make, Mr. Malmgren, about the rivalry among our trade agencies. Built into the organization, into the governmental organization, is a rivalry between Commerce and the USTR in the sense very much like we have in the international field between the National Security Council and the Secretary of State. Now maybe rivalry in some instances is desirable; is helpful. I don't happen to think it is in the case of trade. I think we need a strong advocate of American trade policy.

And what bothers me about the way we have it set up is that you have responsibility in the USTR for policy determination, plus negotiations, and you have the Commerce Department responsible for administration and the collection of facts and information. Unfortunately, things don't break into that kind of nice dichotomy. The fact is that policymaking must be based on the facts and figures. The fact is that the distinction between administration and policymaking frequently is unclear.

So one of my questions would be: Going back to the testimony that we have had rivalry, hasn't that meant that there has been a great deal of time wasted between the two agencies and the inability of getting strong policy? Hasn't it given the capability to our other friends, our trading partners, to use one agency against the other to try to achieve their goals? I would be interested in hearing your comments on that, Mr. Herzstein.

Mr. HERZSTEIN. Yes, I think it has created a great deal of trouble. Let me say at the outset that we are never going to get rid of coordination problems. We have to worry about that all the time. We are never going to be able to get Agriculture or State or Defense all under one agency with what is now Commerce and USTR. We need a mechanism to coordinate.

I think, frankly, that Bob and Harald and I are not as far apart as our testimony indicates in that we all agree there is some need for a coordination mechanism. I fully agree with the idea of a small White House office which can help sort these out.

The problem is that our present system predisposes us to having these conflicts. I might just cite one or two specific ones from 1980. And I'm sure Bob may remember others.

These are just examples. No one of them was necessarily a disaster but they are an indication of the kind of things that come up. The reorganization plan No. 3 was a carefully negotiated document reflecting a great deal of concern about agency powers and prerogatives at the time it was being drawn up. As a result, there are phrases in it that give both Commerce and USTR a claim to almost anything that comes along.

At one time, we were worrying about the automobile problem. Bob Hormats and I decided that one project that would be very helpful would be a Japanese purchasing mission. It would be carefully worked out between the U.S. Commerce Department and MITI. Japanese auto companies would come to the United States and be brought together with U.S. suppliers of auto parts who were then in bad need of business. We both decided that it was critical that this not be a one-time mission, but a carefully worked out 5-year program, with careful followup to be sure that it was not just a cosmetic operation.

Commerce put a great deal of effort into organizing that. It was typically a trade facilitation function or an export promotion function that the reorganization plan seemed to allocate to Commerce. But as we went along we found USTR officials very anxious that this might lead to negotiations. As it got a lot of attention, USTR needed to be involved also. This came to a point where I got on the plane to go to Detroit to open the conference, and there was a staff member from USTR on the plane without any prearrangement. He came to the meetings in Detroit. I would give a carefully prepared speech and he would then chime in with a few comments. This did not bother me, but it did create confusion among both the American automobile people and the Japanese about who was in charge of this program.

Similar problems have come up in the antidumping and countervailing duty cases involving the European steel industry, both in 1980 and in 1983. As you know, Commerce Department had to manage very large cases brought by the domestic industry of this country against the Europeans. Those seemed to be fairly clearly assigned to the Commerce Department by Reorganization Plan No. 3. On the other hand, when you settle a case of that magnitude, it requires extensive discussions with the foreign industry and the foreign government officials.

In both our administration and the current administration, as I understand it, there was concern in USTR about whether this didn't amount to negotiation which should involve USTR. And I think in both cases the resolution ended up being that Commerce would handle what was, in effect, the negotiation.

These are just examples, and I think that it's hard to say that any one of them undid our economy or our Government. But I must say when you are trying to run these programs on a day-by-day basis and having these problems coming up continually, resulting from the ambiguity of your basic charter, it's a very tedious and confusing process.

Mr. HORMATS. I would like to comment briefly on that same issue. I think the point that organization is important is an accurate one. Organization is important. The two points that I think are particularly important are, one, that the whole idea of putting the USTR in the White House was because it was recognized that there were so many different interests involved in trade policy that you had to have the President involved, and you had to have someone who could take into account these various interests sitting near him to advise him and to get the Presidential blessing of a mandate so that a negotiator could go out and negotiate, and pull policy together. Now it's my judgment that that link is extremely important. First, it's important particularly in negotiation. But also as the issues of trade policy are related with monetary policy and antitrust and export control policy, that Presidential input, that Presidential support, is extremely important. I simply don't see how a trade secretary sitting at the low end of the Cabinet pecking order is going to be able to have very much influence over it, much less coordinate the activities of the Secretary of the Treasury.

Senator ROTH. If you would just yield there. I am making certain conclusions. One of the thrusts of the new organization is to try to have some clout so that you have someone that speaks with equal voice. And that's the purpose of this legislation.

Mr. HORMATS. I would very much hope that if the department were created that he or she, whoever was in charge of that department, would have the same voice as other Cabinet members.

The other point is that I do agree that the problem with USTR is that it has not recognized in part where the line between being an implementing agency and a policy coordinating and making agency has been blurred. USTR has, as Hal has indicated, become a bit too large and has taken on functions of a line agency when—and I think that has weakened it—it should not, in my judgment, be the main negotiator on commodity issues. It should be able to pull together and coordinate policy, but it should feel itself in a position to delegate.

But I think these are things that could be done without reorganization, but simply by a more sensible coordination. I think Bob made a point stating that USTR and Commerce have had points of friction. Many have been worked out. Some are inherent in this process.

But they are no different than the points of friction between USTR and Treasury, USTR and Defense, Commerce and Defense, Commerce and Treasury, and other agencies. And the Attorney General in all these Departments. I mean the biggest fights we had over autos were with the Attorney General; not between Commerce and USTR.

And let's not kid ourselves. I think that those things require strong White House coordination. And the problem is that we have had several Presidents who have not taken the time or the interest to come down hard and say we have got to support export interests in this case or that case. They simply haven't done it. And it seems to me that we have got to find a way of doing that. And I'm not sure—or at least I'm yet to be convinced that creating a trade department is going to make these Presidents any more active in support of than they are under the current organization.

Mr. MALMGREN. Senator Roth, if I can follow that comment with a note of something you said yourself. You said that you wanted the top trademan to speak with a voice equal to the rest of the Cabinet members. I think that will be a disaster. I think you need the trade coordinator to be above the Cabinet, above the Cabinet members. It's between the President and the Cabinet in bridging with the Congress that the trade person is able to function. It's when he gets in line with the Cabinet that he is really very weak.

Senator ROTH. Do you really think the USTR speaks above the Secretary of State under the present situation?

Mr. MALMGREN. Until recently, yes, sir.

Senator ROTH. The only time that ever really happened was in the days of Bob Strauss, and that was because of his personal relationship with President Carter.

Mr. MALMGREN. Well, I don't agree with that since I was involved from 1961 on.

Senator ROTH. I was here then, too.

Mr. MALMGREN. I think what we had was a situation in which once the issues got to the level of the President—the policy committee chaired by the USTR did, in fact, make the decisions. Kennedy Round decisions were made by President Johnson, with the USTR staffing them out. Right or wrong, that's how we did it. The President often overruled everybody. He overruled the Secretary of Agriculture, the Secretary of Treasury, and the Secretary of Commerce. And he followed the USTR's guidance. It was because the STR was first among equals.

So we had that process going. The controversy, let's say the rivalry, is intense right now. But, frankly, over the last 20 years it was never so intense as it has been over the last 2 or 3. I can say this flatly. In my time, which ran from about 1961 or 1962 to 1975, not counting time I spent with this committee, we did not have much rivalry. We had close cooperation. We did have countervailing duty and antidumping action separated at that time under the Treasury, but USTR and Treasury did not fight.

What we did was that we met with each other every other day or so, to coordinate what we were doing. We did not try to mix up line implementation with policy guidance. In fact, we wanted dumping-countervail separate, because that was law enforcement, and we didn't want to mix that up with policies. Otherwise, we would always be meddling in the law enforcement side of the law.

And, in fact, when the 1979 Trade Act was brought up one of the issues was, should you bring together the enforcement side of trade policy together with the policy side. And everybody said, no, let's keep them separate. Keep export controls separate. Keep policy above the Cabinet. Keep it in a different frame of reference.

The law actually does designate the USTR as chief policy adviser to the President. It is only recently that this has been changed by the practice of using so many Cabinet Councils to get into the issues. There is rivalry now because there are personality conflicts, frankly. And what I am concerned about is that our country needs teamwork, not confrontation and rivalry. But this has nothing to do with organization. All those years we had cooperation with more or less the same structure. Now suddenly we don't. I think it's partly an absence of policy and partly personality questions.

Senator DANFORTH. Senator Grassley.

Senator GRASSLEY. Thank you, Mr. Chairman.

I'm sorry I missed your testimony, but I had an opportunity to be briefed on some of the points you were making. I guess I would want to ask my questions regardless of your testimony, though, because some of you folks, or all of you, have been involved with this issue in different administrations over a long period of time.

I want to admit first of all partiality to agricultural interests considering the fact I come from Iowa. And also more important considering the fact that agricultural exports are one of those in which we really can compete because we are so efficient, and can compete with others around the world.

My question relates to whether or not there isn't at least a perception that the USTR is a neutral party now or at least viewed that way by the various economic interests in our country. But before asking the question, I want to use as an example a specific instance that was reported early in January about the textile deal with China, and what went on at that particular time. I'm quoting from the Wall Street Journal, although I'm sure other newspapers were full of commentary on this particular incident.

I will quote just two or three sentences from it. It says—"Rare Insight" is the heading. It says, "Whatever the textile decision's impact, it provides a rare insight into how the Government deals with powerful industry trade groups." It goes on in another instance then to tell about how Secretary Baldrige was involved with this and then quoting further on: "Other senior economic policymakers were stunned at the"—referring to the Baldrige proposal—"the Cabinet members pointed out they already had rejected precisely that proposal in September." And then it goes on to say "we thought it was unanimous." Referring to that decision back in September. And then the fact that this was eventually accepted.

Using this as an example, and coming from the standpoint that most people in both the private as well as the public sector see the USTR as being a neutral party and less apt to be swayed by private interests than the Secretary of Department of International Trade and Industry might be, how do you respond to that concern? Are we losing a neutral interest here, as opposed to undue influence by private interests through the Secretary of Commerce?

I would ask any or all of you to comment.

Mr. MALMGREN. Well, in my statement, Senator Grassley, I said specifically that to split off all of industry in one place automatically creates new problems, additional problems, on the agricultural front. This makes agriculture entirely different, and it becomes much harder to link the issues.

My own experience over the years has been that it is imperative to have all the issues on the table in front of you from whatever department, including now, by the way, financial issues like the export credit question or export control issues, because increasingly technology trends are a vital question, both inflows and outflows of technology. But we don't handle it that way. We have it all separated out and confused.

But agriculture is vital, above all, because if we can't link agriculture and industry, the farm interests of the United States cannot possibly function well in the trade forum. And if they don't function well there, we lose a big strength because agriculture, as Mr. Hormats said, taken as a whole, is our largest export area. It's fundamental to the American interest to look after agriculture in the context of all trade laws.

But to put agriculture and industry together in one big department would be an absolute mess. As you well know, agriculture is a world to itself. So what you need is somebody to coordinate it.

Mr. HORMATS. One point I made earlier and I think it remains important is that we have over the last 20 to 25 years tried to avoid in our negotiations pushing agriculture aside and just focusing on industry. We've tried the opposite and that is to say that the industrial antisubsidy rules and other rules should apply also to agriculture to avoid the sort of agricultural subsidies which, obviously, hurt this country. And I think it would be a very serious signal to institutionally separate them.

I mean when I was at USTR—and I think Hal probably had the same experience—we spent a lot of time dealing with agricultural issues. And I think it's important that there be in the White House a USTR which can deal with agricultural issues, can deal with industrial issues, consumer issues, labor issues. One who knows these groups and knows how to weigh the various American interests in developing a negotiating policy. And if we don't do that, if we can't allocate the weight in developing our decisions, and the only group that can do that is a group sitting in the White House that has these links to all the various interests, I think it will be very difficult to form a negotiating policy which would serve the broad interests of the United States.

Mr. HERZSTEIN. I might say, Senator Grassley, that I thought that the way the textile problem was handled, just viewing it as an outsider who has a longstanding interest in orderly administration of trade laws, that it was a bad show. But I don't think any kind of organization is going to prevent that kind of power play on the White House by powerful industrial sources with extremely powerful congressional support. It was mostly Congress or certain Members of Congress, I think, who were responsible for that end run on the policy process. And I don't think anything we do under our Constitution is going to prevent that if the White House is receptive to it.

I would like to say though that I think it's important for us to get over a couple of cliches that keep affecting the discussion of this issue. One of them is that the Commerce Department is protectionist and that American industry is protectionist, and, therefore, if you create a new department with all the responsibility for industry that it has in it, you are going to have an inherently protectionist agency.

In the first place, the Commerce Department has not been protectionist in my view for some years. And as Secretary Baldrige testified the other day, I have very much the same feeling that by far the largest number of pressures that high Commerce Department officials feel when they are in office are from American industrialists who are active in the global market. They are very concerned that the Government not interfere with the economic interdependence we have with other countries, and that it not get in the way of liberal trade. The pressure is almost always in that direction. Sure you have troubled industries, and you have to try to take care of them, but that doesn't run the show.

The second cliche that we keep getting caught up in, I think, is that this bill is somehow moving responsibility to the Commerce Department, merging USTR into the Commerce Department, and that this new department is going to be the old, sort of lazy, protectionist Commerce Department. The fact is, it is going to be a new agency with parts of both of USTR and Commerce in it. USTR would be at the very top, as a matter of fact. One can well view it as an agency headed by USTR and incorporating under and within it the current trade responsibilities of Commerce.

There will, in fact, be a coordinating function of USTR which all of us agree is so important. That would remain in the White House. It would be put even closer to the President. And there would be a stronger interagency coordinating mechanism chaired by the President, which I think would make the process work much better than it has in the past.

The TPC has not worked in part because there haven't been meetings. There was only one meeting of the Trade Policy Committee during the Carter administration and that on a very insignificant point. The USTR did not choose to call TPC meetings.

Under the proposed bill, the coordination function would remain in the White House. You would be moving the negotiating function and the other things that USTR is doing now which more or less overlap with Commerce into the new department of trade.

Senator DANFORTH. Gentlemen, I would like to ask you two questions which, I hope, will yield short conclusionary answers.

The first is if we pass S. 121 and create a new department of trade, do you believe that trade will have a stronger or weaker voice in the administration.

Mr. HERZSTEIN. I believe it will have a good deal stronger voice for the reasons I just indicated.

Senator DANFORTH. Mr. Malmgren.

Mr. MALMGREN. I would have to say that it would have a weaker voice against the interest of the Treasury and the Defense Department and the State Department and Agriculture. It would create greater confusion. I base that on quite a few years of experience in the kinds of issues that come to the top.

Senator DANFORTH. Mr. Hormats.

Mr. HORMATS. I think on the key issues the troubled trade policy's voice would not be as strong as today. You have two people today arguing for active trade policy. Then in the future if you create a new department, you would have, in effect, one. I simply have yet to be convinced that that one agency would have either the ear of the President that a White House institution should have and can have and has had in the past, or be able to deal with the Treasury, Attorney General, Defense, and others effectively.

Mr. MALMGREN. May I say one final point on alternatives? I did a memorandum for Secretary Schulz, who was then Secretary of the Treasury, in 1974. I said there was only one logical alternative to a White House-related USTR. And I would say it with even more force today. If you really want to centralize the issues where they belong, other than in the White House—I mean the White House is preferable—then they belong in the Treasury where the financial issues are. We need to get money and trade together. That's the real problem today.

Senator DANFORTH. Let me ask you one other question. Right now I believe that to the extent that we have a so-called two-headed monster, that is not the fault of the Congress. The Congress has spoken. The Congress has said that we want an interagency coordinating committee, the Trade Policy Committee, and that we want a USTR which is the coordinating body within the White House to pull together the various interests and acting as an honest broker. That was what we decided we wanted, and what we put into the law.

The executive branch, acting without the law, has created its Cabinet Council on Commerce and Trade. It has also put the Secretary of Commerce in the business of trying to do the same thing that the USTR is doing—conducting second track negotiations on various subjects with the Japanese, making speeches relating to trade policy with Mexico and so on.

Now I surmise from this that regardless of what Congress does by way of a restructuring, if an administration wants to put some other committee in charge or wants to put some other cabinet official in charge in the future, there is nothing to stop the administration from doing so. Therefore we could end up from this drill with exactly the same kind of bifurcation which it is said we have right now.

Mr. HERZSTEIN. I agree that this division into three different interagency committees, depending on which cabinet member wants to call a meeting, is very undesirable. The TPC process simply has not worked, as I mentioned before. There was only one meeting during the Carter administration. I don't know how many there have been in this administration, but I have not seen any signs of it working effectively to coordinate. I think there are a number of reasons for that.

The main one stems simply from the inherently difficult division of functions between USTR and Commerce. That gets reflected at the coordinating level, at the top.

I think under the new bill you would have a stronger interagency mechanism. I don't believe you need two, as the bill provides. You don't need a TPC chaired by the President and a council. You need just one of those chaired by the President. I think that would help to strengthen that.

Senator DANFORTH. Mr. Hormats.

Mr. HORMATS. I would say that I think—I commend the notion of trying to get the President to chair this group. Let me tell you, it ain't going to happen.

I have been in a number of administrations and every time these things start—the President was going to chair CIEF, the brave new world of international economic coordination. I could count on one finger or two fingers the amount of times he did that.

Presidents simply aren't going to do that. And what is likely to happen is that the thing is—it will wither. Now I think Bob is absolutely right. There should be more meetings of the TPC. And in the Carter administration it was called once. He's right. It was a mistake. I don't know how many times it has been called—but I suspect more—in this administration.

The problem is other people call their meetings and you have a Hydra. And the Hydra was created not by the Congress, but by the executive branch's improvisation. And it has caused a lot of confusion.

Senator DANFORTH. And it could happen again.

Mr. HORMATS. It could happen again.

Senator DANFORTH. No matter what we do.

Mr. HORMATS. Not only could it happen again, I suspect that if the President, whoever the President happens to be, if he is at all like his predecessors or she is like her predecessors, depending, the difference will be that they simply won't call enough meetings and then someone else is going to take over. Who is that going to be? Maybe the trade secretary; maybe not. Maybe the President will say I would like my Secretary of the Treasury, as was the case with CEIF, to do this.

As we know, it would be very nice to integrate trade policy and nontrade policy. The Secretary of Treasury does it. His views will not be the same, I assure you, as the trade secretary's. And I think that that is a very real risk.

Mr. MALMGREN. Senator Danforth, I have lived through, as I said, something like eight attempts to reorganize. This issue came up many times. Supposing we go ahead and reorganize? Well, supposing another President comes along? Will he follow it or not? And everybody agreed, who has any experience in working around the President, that President's don't chair meetings. And if they do, their eyes glaze over when the substances comes up because it is too complicated to get really that focused into, unless the President happens to really be interested in trade.

The only President who was really interested in trade that I know of was President Lyndon Johnson, who really was interested in the details. But he was the exception to the rule.

Now what will happen is in practice whatever you do with trade out there in the periphery, in the Cabinet, that around the President there will grow a new staff of a trade advisor in this bill, and that place will be where all the foreigners come saying I want to negotiate, I want to negotiate with the President, I don't want to mess around with the Commerce Secretary. My issues transcend that agency. And I want to go right here to where the single but most powerful one is. And that agency, whatever you call it, is going to grow into another USTR. And we are going to waste an awful lot of energy spinning wheels recreating what we already have.

The problem is that the Congress created the agency and kept it going and various Presidents who looked at it kept it going for the simple reason that when you ask everybody it sort of comes down to the same thing. The only way to have all the interests together is to have a small group near the top. And you can create it by a law or not.

But my view is that any President with any sense will recreate if he hasn't got it.

Senator DANFORTH. Senator Roth.

Senator ROTH. Mr. Chairman, I know we have a number of panels this morning so I'm not going to continue except to make one observation. And that is that irrespective of what Congress may have intended, it has created what I have called in the past a two-headed monster. It has only worked well when you have had a particular individual that was able to dominate. And that was the case when Bob Strauss was the USTR.

But I think that we do have a built-in situation that creates division. Now you can argue that nothing is going to work and that's a little bit of the feeling that I get listening to some of your testimony. I'm not that pessimistic. My concern is that we need a strong voice, a strong department in the trade area and we need the underpinning to provide for a strong analysis based on comprehensive and current data. I don't think that has been the case in the past at any time in the last 20 years.

We are not prepared to compete in the world of tomorrow. And we can all look back with sentiment on what has happened in the past, but in my opinion, gentlemen, we had better organize for the 1990's or we are going to be lost.

Mr. HORMATS. Can I say one thing? I think your point on the analysis and the facts and figures is absolutely correct. And that's why we are buffeted around by various pressures from one side to the other because—the Germans here have an interesting example. They have the Ministry of Economics, which is their trade ministry, in effect. And they look at the economics, the merits. Where the merits are good, they will argue in favor of the interest. Where the merits are not good, they will be able to do that.

And I couldn't agree more that we are not able to deal with the issues of the 1980's because we simply—in the various departments a problem of USTR, a problem of Commerce, a problem to the State Department. We operate on the day to day, and we don't have the analysis. And we certainly don't have the future sectoral analysis that we need to help deal with sectoral policies and targeting policies and others.

So whatever happens, I would hope that that function could be bolstered because it is necessary.

Senator DANFORTH. Gentlemen, thank you very much for excellent testimony. We very much appreciate it.

Our next panel is Mr. Galvin and Mr. Trowbridge of Motorola and NAM.

Mr. Galvin, would you like to start?

## STATEMENT OF ROBERT W. GALVIN, CHAIRMAN OF THE BOARD, MOTOROLA, SCHAUMBURG, ILL.

Mr. GALVIN. Thank you, sir.

I've had the privilege of working within the trade system as a businessman and watched it from the standpoint of the Williams Commission back in the 1970's, and been Chairman of the Industry Policy Advisory Committee on two separate occasions currently.

I'm here to speak in favor of this organization change, and hope that it would represent not only a substantive change unto itself, but that it would set the pace for further change into the future.

I have a filed document with you, and I will refer to it only indirectly.

I look upon our trade situation as being one wherein we do not have trading partners; we have trading competitors; and we have trading suppliers. One achieves in that environment only through negotiations. One achieves only through strong negotiations.

Those with whom we deal are pragmatists first and last. We start from the standpoint of an ideal. Our ideal is an open trading system. But we are so separated in terms of the way that we go about seeking in the ultimate to achieve an open trading system that we are at a disadvantage, and, in fact, are being picked off one at a time by our trading competitors and our trading suppliers.

I suggest that you are on an important tact by recognizing that the process that we have gone through up until now has been expediently useful. It has been, I think, rather well accomplished by those who have practiced the art of administration, as represented by these people here, Bob Strauss, who was mentioned, and the current incumbents. I think everybody is trying very diligently to do an excellent job.

But until we are perceived by our trading competitors and our trading partners as having an entity that can stand up for American interests seeking the long-term ideal, but working the problem in a coordinated fashion, we are not going to accomplish our job. I think that there are ingredients in this bill that take a significant set of steps toward better coordination, bringing the two entities, USTR and Commerce together. Making them an entirely new entity; bringing some degree of influence over Export-Import Bank and OPIC under the aegis of that new entity is very valuable. But, hopefully, there is a further thought on the part of you people that want trade to be successful—and it's becoming less and less successful so the record indicates that what we are doing now isn't right—that you have in mind the willingness to do enough other changing that this would merely set the stage for. We should do a further job of bringing the Export-Import Bank and OPIC under the control of this new entity. Agriculture should be negotiated by the new entity. Congress should organize to where its interface with the trade agency would be in a more coordinated way versus having all too many oversight entities.

Those of us who work with the system—we have not worked in the system, we have had to work with the system—can't imagine how you are going to be able to represent us. And that's what your purpose is. It is to represent us so that we can successfully execute in the marketplace in spite of the many entities and disorganization that exists.

I look upon this as a business problem. Trade is a business problem. You are dealing with traders who think as businessmen, and they have been able to pick us apart as a consequence of the fact that we allow in this country so many different entities to have so much say, add confusion and reduce the effectiveness of our negotiation potential.

I think that we can put together in one entity an organization to whom the President can and should vest more responsibility. The President can't act this out entirely. He can't act on any except the most important of the problems that we have to face as the personal administrator of that activity. So he must find the persons that he trusts, whose organization can represent all of the interest in trade and industry by appropriately listening to all that wish to advise, but who take on the job of doing the actual administration.

Thank you.

[The prepared statement of Robert W. Galvin follows:]

STATEMENT OF ROBERT W. GALVIN, CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER, MOTOROLA, INC.

Mr. Chairman and Members of the Subcommittee, strengthening of the government's international trade and investment organization has been a subject of strong personal interest for many years, dating back to my work on the Williams Commission in the early 1970's. I am appearing before you to argue that while some progress has been made, we still have a considerable way to go to achieve a strong and efficient government trade structure.

My comments today should not be taken as criticism of those who have worked diligently within the existing fragmented organization structure and have done the best they could under those circumstances. I have the greatest admiration for those who have managed our trade policy in recent years and only wish they had not been handicapped by an arcane trade structure that has grown like topsy over the last 60 years.

The existing government organization for international trade and investment evolved during a period when such matters were of limited interest to most Americans and had little impact on the U.S. economy. As new issues emerged and new functions developed they were parceled out to existing or new government organization in a haphazard fashion. The result is that at least 10 U.S. agencies play a significant role in determining and implementing U.S. international trade and investment policies.

The proposed reorganization will eliminate one of the major areas of overlap -- between USTR and Commerce -- and improve coordination in other areas, particularly by bringing OPIC and the Ex-Im Bank under more direct influence of the new Department's Secretary. In addition, the government's monitoring and analysis of international commercial developments would be enhanced -- a key priority. Clearly these are constructive developments which would be a significant improvement over the existing situation in elevating trade to a higher national priority and creating a framework for a more coherent trade and investment policy. This is the position of myself and Motorola and also of the Industry Policy Advisory Committee which I now chair.

My personal concern is that the proposed plan does not go far enough.

It may be difficult politically to take a more ambitious approach but it seems to me worthwhile to at least consider some of the following ideas:

(1) Bringing the Ex-Im Bank and OPIC functions directly under the control of the new Department. This would further strengthen our ability to coordinate promotion of foreign trade and investment as these two agencies are the principal organizations providing financial support and guarantees. Export credit negotiations should also be handled by the new Department to ensure they are conducted in a manner consistent with U.S. trade objectives.

(2) Providing greater decision-making authority for the Secretary of the new Department. Trade reorganization will not produce better U.S. trade policy unless the Secretary has direct responsiblity for decisions. Two areas of particular importance that should be assigned to the Secrtary for final decision are trade cases (including import relief) and export administration policy. Obviously the Secretary

should have the advice of other agencies but should have the final responsibility for trade policy just as the Secretary of State, Treasury, and Defense determine policy in their areas of jurisdiction.

(3) Improving coordination of trade and investment policies with respect to agricultural, energy, and defense products. These three areas are such an important component of U.S. trade that their omission from the trade policy structure undercuts U.S. ability to negotiate with other nations and implement a coordinated policy.

(4) Restructuring of Congressional Committee jurisdiction to more closely parallel the new Department's structure. At present, I understand that at least 3 committees in each House would have oversight responsibilities. It would be understandable that the Secretary would find some degree of confusion and inconsistency in dealing with 6 major Congressional Committees. Since the Constitution clearly assigns foreign trade regulation authority to the Congress, it would be desirable to have less complex lines of accountability to the Congress for the Secretary.

In closing let me stress three important ingredients that will be essential to any government trade organization.

First, is a strong private sector advisory committee structure to support our negotiations and policymakers. Without detailed input from the private sector, no government organization can be expected to effectively address the problems and opportunities that arise. In my experience, the current advisory system has proved quite effective and should be maintained.

Second, we need an experienced, professional cadre of trade officials who understand the complexities of the issues we face and how to deal with them. Our major trading competitors have developed such a capability while the U.S. has had an increasingly difficult time developing and retaining the kind of talented people we need. Senior Japanese and European trade officials spend their entire careers preparing for their responsibilities. We cannot afford to be represented by less experienced or knowledgable individuals. Senator Mathias's approach is a good step in this direction.

Finally, the government must have the proper tools to be effective. It is not enough to develop a more rational and efficient organization, if the organization does not have the authority it needs. To give a specific example, the Congress should act expeditiously to update our trade laws. This Committee has made a constructive effort in this direction in its initiative for reciprocity legislation. Chairman Gibbons is also making an important effort with his new proposals to deal with targeting and improve the countervailing and antidumping laws. Such proposals are just as critical to the success of a trade reorganization effort as the reorganization legislation itself.

Thank you for your consideration of these views. I will be pleased to answer any questions.

Senator DANFORTH. Mr. Trowbridge.

STATEMENT OF MR. ALEXANDER TROWBRIDGE, PRESIDENT, NATIONAL ASSOCIATION OF MANUFACTURERS, WASHINGTON, D.C.

Mr. TROWBRIDGE. Thank you, Mr. Chairman.

I, too, have submitted a statement. I will just make some brief comments, if I may, on behalf of the view that the trading interests of the United States will be better served by a single trade department. It's a posture that the National Association of Manufacturers has held since 1979. And we continue to support it as proposed in S. 121.

I'm aware, of course, of the concern that some people have that the Department of International Trade and Industry would become a department of protectionism, so-called, because supposedly American industry is protectionist. As Bob Herzstein has said earlier, I think that fear is unjustified because the presumption is wrong. American manufacturers are generally not protectionists. They are people still committed to strengthening and preserving the open trading system.

What is true, however, is that with or without a Department of Trade, we will see a return to protectionism in America if we don't do two things. First, to improve the relative trade performance of the United States. And, second, to increase public awareness of America's stake in international trade. The department provided for in S. 121 can help reach both of those goals.

Just in passing, I think it's important to note that today the Senate will be looking at some very important legislation—the Export Administration Act of 1983, S. 979, a very important and complex bill. Senator Heinz of this committee has done a lot of work on it, along with many of the other members of the committee, of course. And we commend the committee for that work and also for the work on the foreign sales corporation legislation which hopefully will also be coming up soon.

As you well know, the United States had a $12½ billion surplus in the manufacturing goods exports in 1980. By 1983, this had deteriorated to a $38 billion deficit. Manufacturers, as a general category, represent by far the largest components—some 66 percent—of American exports. Both Government and industry need to understand the significance of the trade deficits and to do something about them. They are simply not sustainable at these levels.

Now putting the management of U.S. trade policy under one primary roof would be a good step toward correction. Organizational frameworks do not by themselves produce better policy decisions, but they are important aids in doing so.

One big advantage can be expected from a Department of Trade which is that the Government would find itself technically better able to pursue whatever mix of international economic policies that are decided upon, and to give greater prominence t our world trade status. This point seems almost self-evident. When a single department is responsible for negotiating trade agreements, for administering U.S. trade laws, for analyzing U.S. and foreign competitiveness, each function should be performed more effectively.

As I said earlier, the mere act of rearranging organizational boxes by itself is no guarantee of resulting better policy. Proper management can be a big facilitator for those responsible for developing those policies.

It's fair to ask what we can expect from a trade department. Would it help in the needed reform of the international monetary system? Could it lead to a strengthening of the international trading system? Could it improve the framework of U.S. laws affecting trade? Could it address the vexing problems of foreign industrial policies that adversely or unfairly affect U.S. industries?

In each case, I think the answer is generally yes. These problems can just be better addressed in one coordinated locale, even though in some areas, such as international monetary policy, the trade department could not be expected to be the lead agency. It might, nevertheless, have a very decisive effect on the resulting policy.

Just for a moment, if I could comment on a few of the specific provisions of S. 121, particularly, that for a small business assistance, which we strongly support. The Office of Small Business Assistance proposed would be welcomed, I think, by our membership, which embraces everything from the smallest to the largest of American companies. Smaller firms have to have a place they can turn to for advice about the applicability of trade laws to their situation and to assist them in competing in the world marketplace. The Export Trading Company Act passed last year represents such a booster for the smaller business community.

In the Census area—we are pleased that in its present form S. 121 establishes the Census Bureau as an independent agency. At one point it appeared that the Bureau would be part of the Treasury Department which would be, I think, a serious mistake.

I personally would find it more sensible to leave the Census Bureau in the new Department of International Trade and Industry, but that's a question that is obviously open for discussion.

Finally, in links with other agencies: In general, these relationships are well provided for in S. 121. The question of whether the trade secretary should be a member of the National Security Council is a difficult one. It is a fact, however, that both the Reagan administration and Carter administration have shown a willingness to sacrifice U.S. export competitiveness for the sake of geopolitical goals that those sacrifices could not achieve.

Given this history, we think that there is some merit in making the new trade secretary a member of the National Security Council. And in the Office of Competitive Analysis, we support the creation of this office to provide analysis to our policymakers.

I'm not sure, though, that we should have the language in S. 121 which sets out requirements for an annual public report of the Office of Competitive Analysis, nor to the proposal to establish industrial sector competitiveness council. It's a significant step for Government to report that particular industries are especially promising or that others are in difficulty. It can affect their stock value, their ability to raise capital in all of the companies in the identified sectors. The establishment of sector competitiveness councils goes to the heart of the current national debate on industrial policy.

These provisions raise serious questions on which our members differ. Even so, their inclusion in S. 121 does not lead us to modify our support for this legislation, which we do.

Senator DANFORTH. Thank you.

[The prepared statement of Alexander B. Trowbridge follows:]

TESTIMONY OF

ALEXANDER B. TRWOBRIDGE

PRESIDENT

NATIONAL ASSOCIATION OF MANUFACTURERS

ON

THE DEPARTMENT OF INTERNATIONAL TRADE AND INDUSTRY ACT

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL TRADE OF THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

FEBRUARY 27, 1984

Mr. Chairman, members of the Subcommittee, I am Alexander B. Trowbridge, president of the National Association of Manufacturers. The NAM has for many years held the view the the trading interests of the United States would be better served by a single department of trade, such as the Department of International Trade and Industry proposed in S. 121 than by the current governmental structure. The United States can no longer afford undue fragmentation and division of interdependent responsibilities in the conduct of trade policy. I am, therefore, grateful for the opportunity to appear before you this morning to explain our views and to answer any questions you might have.

I am aware that some on the Subcommittee have expressed the concern that a Department of International Trade and Industry would become a "department of protectionism" because American industry is protectionist. The fear is unjustified because the presumption is wrong. American manufacturers are not protectionists; they are people still committed to strengthening and preserving the open trading system. What is true, however, is that with or without a department of trade, we will see a return to protectionism in America if we do not manage to do two things: 1) improve the relative trade performance of the United States; and 2) increase public awareness of America's stake in international trade. The department provided for in S. 121 will not by itself accomplish either of these goals, but it can help with both of them.

[ I would like to note here that the Senate later today will be considering legislation that has very serious implications for the competitiveness of U.S. manufacturers -- The Export Administration Act of 1983 (S. 979). This is a complex bill that I will not go into now execpt to commend a member of this Committee, Sen. John Heinz, for his work on the legislation and to emphasize NAM's strong support for the sanctity of contract provision in S. 979 for which Senator Heinz is responsible. ]

Manufacturing and Trade

Before commenting further on the legislation, I should like to say a word about NAM, our interests and our concerns. NAM is the oldest national trade association. The first meeting, which was held in Cincinnati in 1895, was motivated by the need to create an organization to promote the foreign trade of the United States and to consider other national questions of interest to manufacturers. In that sense, our goals today are broadly similar to what they were in 1895. Today we have approximately 13,600 members. Collectively, the account for approximately 80 percent of U.S industrial output and 85 percent of our country's industrial employment.

It has been estimated that 70 percent of all U.S. products compete internationally.* That is but one of several conditions that mandate a strong NAM concern for the character of U.S. trade policy. It is compounded by the alarming erosion of U.S. competitiveness reflected in an array of statistics. The broadest and most well-known of these is the merchandise trade deficit. There has been a serious deterioration in the trade account in the last few years. The trade deficit was $44 billion in 1982, $69 billion in 1983, and it is possible that it could be as bad as $100 billion this year. From our point of view, the figures for manufacturing trade are even more serious. In this sector, where as recently as 1980 the United States had a $12.5 billion surplus, our deficit last year (1983) was an enormous $38

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* Ira C. Magaziner and Robert Reich, Minding America's Business: The Decline and Rise of the American Economy, Vintage Books, New York, 1983.

billion. Both government and industry need to understand the significance of these numbers and to do something about them, for they are not sustainable. Yet we cannot let them blind us to America's interests in the international trading system. Partly because we do not have a Secretary for International Trade, as a country we are in danger of doing just that.

The trading system is a part of the prosperity that has characterized the United States since the Second World War, and it is essential to any realistic hope we have for building upon that prosperity. The global recession has meant a fall in world trade and U.S. exports have suffered. Further, because the United States is the first country out of that recession, our imports are proportionally higher than those of others with a concomitant widening of the gap between U.S. exports and imports. Nevertheless, we in the United States export over 20 percent of everything we produce. And most of our exports--roughly 66 percent--are exports of manufactured goods. American industry knows full well the stake it has in the open trading system, the value of which is far greater than the value of manufactured exports alone, over $132 billion in 1983. We have no intention of jeopardizing it.

To the contrary, like the authors of S. 121 we believe that:

> The expansion of United States participation in international trade will imporove the general welfare of the people of the United States by increasing demand for American products and services, creating jobs, and increasing the gross national product. (Section 101, (1) (C) (3) of S. 121)

We also believe that these benefits have a better chance of becoming realities if the United States has a trade department.

Because so many have suggested a close relationship between the attitudes of U.S. industry and the probable character of the department proposed by S. 121, the former are worthy of some comment. NAM and the substantial majority of its member companies value the open trading system that has evolved under the auspices of the General Agreement on Tariffs and Trade (GATT) and with the leadership of the United States. We believe that the impressive growth of world trade between 1950 and 1980 could hardly have taken place without the benefits of a system like the GATT, and we are hopeful that this pattern, which has been arrested by a variety of factors from widespread recession to U.S. budget deficits, will resume. Ironically, few things are more inimical to such a development than the myth of of free trade.

International Trade Barriers

If one were to infer economic history from the comments of the day, one might conclude that when the GATT came into effect in 1948, the contracting parties dropped all of their trade barriers and established a free trade area among themselves. Surely, only such a history could justify the degree of surprise and outrage we see today at the fact that trade barriers do still exist abroad--indeed are still being invented--and the realization that governments regularly act to influence markets. But that is not the history we inherit, and free trade is not the standard against which we should measure the usefulness of the GATT trading system. Basically, the essence of the general agreement is the mutual pledge of the contracting parties not to do certain specific things. The list of barriers countries have traded away and the things they will not do to satisfy a mercantilistic itch has expanded over the years. The most recent, significant expansions came as a result of the MTN codes of 1979, and there need to be more such expansions. For example, there has to be greater international discipline over international investment policies with implications for trade and over certain types of industrial policies. This is not going to done by jettisonning the accomplishments of the past. We need to build on them.

Advantages of DITI

Two big advantages that can be expected from the creation of a department of trade are these. First, the government should find itself technically better able to pursue whatever mix of international economic policies are decided upon. Second, it is reasonable to believe that the policies that finally get adopted will be better servants of our interests. The first point seems almost self-evident. When a single department is responsible for negotiating trade agreements, for administering U.S. trade laws, and for analyzing U.S. and foreign competitiveness, each function is performed more effectively.

There is a sense in which the negotiation function is the core of government's efforts in trade. This does not mean, of course, that most or even the largest portion of the Secretary's time should be devoted to specific negotiations. It does mean that it is his job to ensure that American trade policies further American interests. The simple awareness of this fact on the part of the Secretary, the President, the Congress, and the American people should, over time, serve to improve decision-making. Realistically, that kind of responsibility can only be given to a secretary whose department possesses the analytical capabilities associated with the Commerce Department's Office of the Chief Economist, the Bureau of Economic Analysis and the Bureau of Industrial Economics, and to a secretary who has a firm knowledge of and reasonable control over the enforcement of U.S. trade laws. Without these attributes a Secretary of International Trade and Industry would be in a weak position to make the best judgments or to win acceptance for them.

Before moving ahead with major organizational changes, it is fair to ask questions. For example, could a department of trade help in the needed reform of the international monetary system? Could it lead to a strengthening of the international trading system? Could it improve the framework of U.S. laws affecting trade? Could it address the vexing problems of foreign

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industrial policies that adversely and unfairly affect U.S. industries? In each case, I believe, the answer is yes. Even though in some areas, such as international monetary policy, a trade department could not be expected to be the lead agency, it might nevertheless have a decisive effect on the policy. Let me discuss each of these areas briefly.

<u>Exchange Rates</u>

Nothing has more severely undermined American competitiveness in recent years than the serious misaligment in exchange rates. Similarly, nothing would benefit U.S. trade more than appropriate adjustments in the rates that link the dollar, the Japanese yen, and the German mark. Internationally, there is a broad consensus that these rates are wrong, and our major trading partners would almost certainly welcome a change. The Europeans see U.S. interest rates bringing up their own; Japan is concerned that the yen-dollar misalignment is adding an uncomfortable amount of fuel to protectionist fires in the United States; and the non-oil less developed countries, with current account deficits of $100 billion in 1981 and 1982, desperately need to cut the cost of their imports.

Still, the obstacles to change are formidable. Though the effect of the currency misalignment on U.S. industries is easy enough to see--Japanese products have a 20 percent advantage against American products in the U.S. market, Japan, and all the other markets of the world--we do not have agreement on the nature of the problem within the U.S. government. I am convinced that that is largely due to the fact that we still do not understand the importance of trade to the U.S. economy. In time, a department of trade might by itself correct that very serious error of perception.

As I have indicated, there is a broad consensus in world capitals that exchange rate markets are not giving the right signals. This is partly due to high U.S. interest rates and the attractiveness of the U.S. to foreign capital from a safe-haven standpoint. There is not yet any consensus on what to do about it. The idea with perhaps the greatest merit involves injecting more structure into the so-called managed float. This is the heart of a resolution approved by the NAM Board of Directors early this month, a copy of which is attached to my statement.

<u>The International Trading System</u>

America's success as an exporter demonstrates that, to a profound degree, the trading system works. Most of our exports face competition even from the importing country and many are in sectors that foreign governments would like to protect. Similarly, the European Community's complaints against Japanese exports to Europe are as much a demonstration of the strengths of the system as they are evidence of its shortcomings. At present, however, the GATT system is under severe stress, and its continued usefulness is in doubt. The first order of business should be to clear the GATT calendar of the most divisive issues: the need for better international opportunities for U.S. agricultural exports and DISC. The cynical use of technicalities to deny equity can only undermine support for GATT in the United States and all other affected countries. Yet GATT has been used in just this way with respect to DISC. Setting aside the history, however, current disputes must be resolved, and the development of a replacement for DISC that is compatible with GATT could provide the necessary political opportunity.

In this connection I should like to congratulate the Finance Commttee for moving ahead expeditiously with the FSC proposal (S. 1804), which we strongly support. We believe that this proposal fully meets the requirements of the GATT, but that does not mean it will not have to be defended. Part of the difficulty DISC encountered over the years was the failure of the U.S. government to speak with one voice on the merits and, in terms of GATT, the legitimacy of DISC. This was a weakness our trading partners exploited effectively. The strengths of a single department of trade should go a long way toward ensuring that that kind of problem not recur with respect to the FSC.

Further, the effectiveness of the MTN codes in promoting more open markets must be increased. The Standards Code, the Government Procurement Code and others have not lived up to expectations. We need to urge greater international reliance on these codes and the successful negotiation of a new import safeguards code.

Success in these areas may well depend upon the creation of an American department of trade. If the existing MTN codes are judged as failures, it will be largely because we have not been able to enforce them effectively. With the responsibility for doing so divided among Commerce, State, and USTR, and knowledge of potential violations far removed from the ability to act on them, it is no wonder that this is the case. A department of trade would go a long way toward making these codes more meaningful. It could also increase the likelihood of a new safeguards code being successfully negotiated. This is absolutely essential if the GATT system is not to be eroded by a series of bilateral arrangements that in the short run seem more convenient to our trading partners, and sometimes to us, than GATT Article XIX, the current safeguards code.

## The Framework of U.S. Law Affecting Trade

Since 1963, we have enacted a host of laws designed to ensure the expression of American values in American dealings with parties in other countries. The burden of this effort fell to a considerable degree on U.S. exporters. An experience common to most people who use commercial airlines illustrates the error common to many of these laws. Passengers traveling with small children are routinely advised that, in the event it becomes necessary to use the oxygen masks, they should put on their own masks first, then attend to the children. That commentary is a useful reminder that for nations, as well as individuals, the expression and furtherance of values is dependent upon the preservaion of strength.

Our laws need to be corrected to reflect this reality and a Secretary of International Trade and Industry would be better placed than any existing official to effect the necessary changes. The export disincentives that concern us most are those embedded in the Export Administration Act, the Foreign Corrupt Practices Act, in our antitrust laws, and in our failure to recognize the need to compete with other governments in areas such as export credits where governments are providing the keys to the success of their producers.

Industrial Targeting

It would be foolish to try to divorce the debate over trade reorganization from that over industrial targeting. Part of the impetus for reorganization relates to the belief that Japan's incredible export success is due in no small measure to Japan's Ministry of International Trade and Industry. Another part of that impetus is the belief that we must find a way to counter foreign industrial policies that are believed to have eroded our own competitiveness, particularly targeting.

Whoever is elected this year, there will be new policies in this area in 1985 and after. Will those policies be a) effective; and b) reflective of the full spectrum of the American interests that will be changed by them? It is more likely they will be if they are developed within an agency that has the analytical capability, the negotiating authority and the stature of the department described in S. 121.

I have intentionally emphasized the need for creating a department of this type at the expense of a detailed analysis of a particular piece of legislation. I would, however, like to comment about a few of the provisions of S. 121.

<u>Small Business Assistance</u>

NAM strongly supports the Office of Small Business Assistance. Our membership embraces everything from the smallest to the largest American companies. We are very much aware that the smaller companies too frequently see trade as a threat they are unequipped to deal with. That must be corrected. Smaller firms have to have a place they can turn to for advice about the applicability of the trade laws to their situations.

<u>Census</u>

We are pleased that in its present form S. 121 establishes the Census Bureau as an independent agency. At one point it appeared that the Census Bureau would be made a part of the

Treasury Department. In my view this would have been a serious mistake.

Links with Other Agenices

In general these relationships are well provided for in S. 121. We agree that the Secretary for International Trade and Industry should be the chairman of the board of the Overseas Private Investment Corporation, chairman pro tempore of the White House Interagency Trade Organization and deputy chairman of the National Advisory Council on Intergovernmental Monetary and Financial Policies.

The question of whether he should be a member of the National Security Council is a difficult one. I am aware that the Administration is opposed to this idea, and this provision is not one that we would consider necessary to the creation of a successful trade department. It is a fact, however, that both the Reagan Administration and the Carter Administration have shown a willingness to sacrifice U.S. export competitiveness for the sake of geopolitical goals that those sacrifices could not achieve. Given this history, we wonder if there wouldn't be some merit in making the new trade secretary a member of the National Security Council.

Office of Competitive Analysis

We hope that its analytical capability will be one of the three major strengths of the department. We support the creation of this office. I cannot give the same endorsement to the language in S. 121 setting out the requirements for the annual report of the Office of Competitive Analysis, nor to the proposal to establish industry sector competitiveness councils. It is a significant step for government to report that particular industries are especially promising or that others are in difficulty. It affects the stock and the ability to raise capital of all of the companies in the identified sectors. The establishment of sector competitiveness councils goes to the heart of the current national debate on the subject of industrial policy. These provisions raise serious questions on which NAM members differ. Even so, their inclusion in S. 121 does not lead us to modify our support for the basic purposes of the bill.

Competitiveness Impact Statements

In many cases, our export disincentives have come about because policy makers have accorded higher priority to other goals. Still, there are enough instances in which disincentives have arisen from a failure to appreciate the effect of a regulation in terms of lost competitiveness, and these persuade us that there is merit in requiring the executive branch to assess that effect in certain situations. We therefore support Section 203 of S. 121.

In closing, I should like to congratulate Senator Roth for the determination he has shown in trying to improve the way the United States conducts trade policy and to thank the Subcommittee again for the opportunity to appear.

# # #

NAM

ADOPTED BY NAM BOARD OF DIRECTORS
FEBRUARY 10, 1984

RESOLUTION ON THE EXCHANGE RATE FOR THE U.S. DOLLAR

Whereas a competitive U.S. industrial base is possible only if the exchange rate for the dollar is realistic relative to the currencies of other major trading countries;

Whereas exchange rate policy must be developed within the context of national economic policy, and macroeconomic policies must be shaped with due regard for direct and indirect impact on exchange rates and trade;

Whereas the substantial rise in the value of the dollar against the yen, the deutsche mark and other major industrial country currencies in recent years has more than offset the reduction in the U.S. inflation rate and efforts to improve industrial productivity, thus making American-produced goods less competitive in both domestic and world markets;

Whereas the reduction in U.S. price and cost competitiveness due to exchange rate changes alone has been calculated as costing as many as two million jobs in the domestic U.S. economy and has contributed significantly to the 1983 record U.S. trade deficit of $70 billion;

Whereas the effects of the dollar exchange rate misalignment are most serious respecting the yen and the deutsche mark, the currencies of our principal industrial competitors, and have contributed to their very large manufactured goods trade surpluses, as well as to the huge and growing U.S. trade deficit;

Whereas the deterioration of the U.S. trade and current account balances since 1980 has not led to a counter-balancing reduction in the exchange value of the dollar, but rather the dollar has maintained its value or even strengthened significantly against all major foreign currencies;

THEREFORE BE IT RESOLVED that the National Association of Manufacturers recommends that the U.S. develop fiscal and monetary policies designed to achieve progressive elimination of the federal budget deficit and reduction of high U.S. interest rates, and thereby help the dollar reach and maintain an exchange rate appropriate to the U.S. competitive position, while achieving major domestic macroeconomic goals.

BE IT FURTHER RESOLVED that the National Association of Manufacturers urges the development of an explicit U.S. exchange rate policy supportive of U.S. trade performance. Such an exchange rate policy should include:

- Improved coordination and consultation with other countries regarding the international effects of domestic economic policy, with the purpose of reducing dollar exchange rate misalignment, in accordance with agreements reached at the 1983 Williamsburg economic summit;

- Improvement of the present exchange rate system through the introduction of a greater degree of structure, the purpose being to reduce the present dollar misalignment without excessive levels of government intervention in currency markets;

- Special attention to the international position of the Japanese yen, to encourage its greater use as an international transaction and reserve currency, and thereby to encourage greater international demand for the yen relative to the dollar — thus raising its value. The recent agreement of President Reagan and Prime Minister Nakasone is an important step in the right direction and should be fully implemented as soon as possible.

In addition, the U.S. should take the lead in seeking long-term improvement in the international exchange rate system. Consultations with Germany, Japan, other major industrial countries and the IMF to reform the present system should be undertaken, so that it can better achieve the original objective of facilitating trade and investment by reflecting changes in economic fundamentals which determine competitiveness.

Senator DANFORTH. Senator Roth.

Senator ROTH. Gentlemen, I appreciate you both being here today and your support. I would like to reemphasize one point. There has been considerable discussion as to whether or not organization is really important, whether it makes a difference. Some have suggested that it would be misguided to spend time in a reorganization when we could be spending that time on policymaking. But both of you have had considerable experience in organizational matters. Does it make sense to have the collection of intelligent facts and figures and analysis of that information in one agency? And the administration of policy and programs in that same agency, but then have policymaking and negotiations in the other agency? Doesn't that create a division that necessarily invites turf fighting and competition?

Mr. TROWBRIDGE. If I can answer first, Senator Roth, I think that obviously considerations of organizations should be going on parallel to the development of policy. Neither should be held in abeyance while the other is done.

Second, I would agree with you that splitting the formulation and the implementation of policy into two separate organizations is bound to be a source of conflict and internal frictions. I think it makes sense to put them in one place.

Senator ROTH. Mr. Galvin.

Mr. GALVIN. Organizationally, it would be superior to put them central. Organization is an issue not only of structure but the assignment of responsibility and staffing. And concomitant with what you are doing it would be expected and presumed that there would be vested in this entity that not only does the better collection, the better analyzing, the better policy determination, better implementing, the authority to accomplish that. And when you put those together in a central entity under the staffing of competent, accepted people who we would trust, the job would be done better.

Senator ROTH. Would you agree that it is critically important that this country now become competitive in the world markets? Increasingly, our business, our jobs, our commerce is going to depend upon world trade so that we must give considerably more emphasis to trade today and tomorrow than we have in the past. We no longer can rely on the fact that in the 1950's, the 1960's, our business was so far ahead competitively that it almost could do it alone. Now I'm not suggesting that Government is a substitute, but we have got to have a strong advocate in Government that will act as an advocate on behalf of commercial interests in contrast to the past where Government many times was almost hostile.

Mr. GALVIN. Trade has never been more competitive. It's going to get more severely so. And, obviously, the principal role of acting out as competitors is that we in business do so. But we require you to be our international negotiator. And I respectfully suggest that you will be able to do your job better when more of the authority is centralized to accomplish that.

With the end objective in mind that we wish to achieve an open trading system, but we aren't going to get it unless we can go in with strong negotiating postures, that will be so.

Mr. TROWBRIDGE. I think it's very evident, Senator Roth, just from the numbers from the mid-60's when I served as Secretary of

Commerce. We were dealing with an international trade component that represented, I think, about 8 percent of our GNP. It's somewhere closer to 14 percent now, if I am not mistaken, including imports and exports.

A hundred billion dollar trade deficit in 1984 is now projected, and using a rule of thumb of 25,000 to 30,000 jobs lost per billion dollars, it clearly has an immense impact on the health of this economy.

We are far more intertwined. Trade is a far more important part of our economy. It deserves the kind of high level coordinated attention that this proposal would produce.

Senator ROTH. Well, I see my time is up. I want to congratulate both of you gentlemen for the leadership role you have played in the private sector in bringing this problem to all our attention.

Senator DANFORTH. Senator Long.

Senator LONG. Mr. Trowbridge, good to see you here today.

Mr. TROWBRIDGE. Thank you, Senator.

Senator LONG. Perhaps you could enlighten me somewhat on this exchange problem. Under the Breton Woods agreement, as I understand it, we pegged our dollar to gold at $35 an ounce. And my impression during those days was that anyone who wanted to sell in our market could devalue his currency compared to ours, and that would give him a very strong competitive edge selling in our market and it would make it difficult to sell into his.

Now since we are away from that system, I still gain the impression that foreign countries can, if they want to, value their currencies below ours. They can have an advantage in trading with us both selling into our market and making it more difficult for us to sell into theirs.

Can you enlighten us somewhat on that? I just don't understand too well how they can do it or can't do it.

Mr. TROWBRIDGE. Senator, it's a marvelously complex area, as you well know. I think our current problem, which overrides just about everything in the international economic sphere, is the dilemma which the overvalued dollar or the very strong dollar now provides to an American exporter. Before he even steps out of the starting box he's got a 15- to 30-percent disadvantage by reason of exchange rates that favor undervalued currencies.

Part of that, obviously, is a reflection of the strength of interest rates in this country which draws in investments from abroad, as well as the safe haven aspects of political and economic security which the United States offers to foreign investors.

I think clearly this is tied to expectations as well as current reactions to our governmental deficit problem. And that is the overriding big issue which I think we all have to keep in mind. But our hope is that between settling the deficit problem and getting a credible downward slope on those deficits, and a reduction therefore of interest rates, that the dollar in relationship to European currencies as well as the Japanese will come into a better balance, one which more accurately reflects the trade weighted value of the currencies of those other countries. The Japanese are a very strong exporting nation. Their currency should be worth a great deal more based on their trade surplus.

Senator LONG. I don't know of anybody doing anything about it other than to say, well, try to balance the budget. Well, of course, we are trying to do something about that. But, as you can read, the President wants to cut spending or he talks about spending, more than he is recommending in his budget. And some of the Democrats are talking about raising taxes because I think to get the best we are going to have to put some taxes back on. We had a tax cut before we could afford it.

Do you have any other suggestions as to what could be done or should be done to try to get the dollar more in line with where it ought to be? I mean compared to other currencies.

Mr. TROWBRIDGE. I think the principal area that most people are concerned about, because of the size and the competitive impact, is the dollar-yen relationship. I was in Japan during the last week, and there was a great deal of discussion going on. As a matter of fact, a sizable American delegation was there discussing with the Japanese what it was that could be done to implement the general agreements reached by the President and Mr. Nakasone at their recent summit meeting.

There seemed to be some optimism that the Japanese would slowly, reluctantly, but surely, implement some of the commitments that they took in that regard. I don't know whether they will. But bilateral negotiations on that front at least are going on. And the U.S. Treasury is at last aware of the very, very important impact of this problem on American exports. And we have to hope that they will be able to negotiate, through strength, a series of internal changes in the Japanese financial markets which will help alleviate the imbalance that currently exists.

Senator DANFORTH. Gentlemen, thank you very much.

Next we have Mr. Pryor of the National Association of Wheat Growers; Mr. Tussey of the American Farm Bureau Federation; Mr. Reed of the Arthur Daniels Midland Co.

Mr. Pryor, would you like to start?

## STATEMENT OF EARL PRYOR, PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS, WASHINGTON, D.C.

Mr. PRYOR. Thank you, Chairman Danforth. In the interest of time, you have my testimony and I will try to summarize briefly so that we might have some time for questioning.

I have about five points I would like to address. No. 1 being that the largest deterrent to our wheat sales is just the subject you were talking about and that is the strong dollar. Through 1981 and 1982 we have lost $3 billion in value; in trade about 16 million tons; and about 1.5 million jobs. I don't believe that the DITI will impact a Treasury decision or the State Department. And the impact of foreign policy on ag is well documented; particularly in the area of embargo and sanctions.

The second issue is the examination of the DITI structure seems to confirm that the advocacy of domestic business interest is still predominant, and not balanced with foreign trade interests. For example, replacement of the chief negotiator of textile matters within DITI and provide an ambassadorial rank and status which doesn't go well for agricultural interests, which comprise about 40 percent of the Nation's exports.

The continued advocacy of interest from domestic business is poorly timed particularly because it's evident there's going to be more and more increasing pressure in that area.

We need to maintain the honest broker image that USTR has in our opinion.

Third, the loss of the cabinet status of USTR is critical to our vested relational experience that we have with USTR. Our experience is based upon the Russian LTA agreement and is very positive. It worked very well. The China LTA experience in which Commerce played a major role in supporting textile interests was very negative. Wheat interests lost about a half a billion trade versus about $50 million that were at risk in the textile industry. I thought that was a very poor trade off.

With DITI replacing the USTR as trade spokesman, I think that is poorly timed; particularly, in these critical times of trade deficiencies. We've heard the discussion here where we are facing almost $100 billion deficit in that. That's not too great.

The trade authority that rests with the President from Ag's vantage point, and confirmed by congressional action, are those areas that impact us and we are anxious to see that they are expanded and developed. It would be the Trade and Development Act of 1954, which is Public Law 480. We had hoped to see that that funding is increased because I think it has tremendous potential.

Six out of our 10 most important customers now were Public Law 480 recipients. They are cash customers.

The Trade Expansion Act of 1962, which gave authority to trade agreements and to negotiate or rather administer them, I think needs to be expanded.

The Trade Act of 1974 and the Ag-Trade Act of 1978 were really reaffirmations of this. The Omnibus Budget Reconciliation Act of 1982 provided that we have, I believe, $190 to $175 million that was to be put into trade activities. So far, we have only expended $100 million of those, and we are sitting on the other $75 more or less impounded by USDA and OMB. We're concerned about that.

So we are really concerned about the impact of the discussions going on about farm program costs. Really the costs that we are experiencing there are centered in the favor of our trade policy. If we had the opportunity and had kept the trade shares that we had previously, we wouldn't be facing these costs now. I guess my contention is that we don't have a farm problem; we have a marketing problem.

Thank you.

Senator DANFORTH. Thank you, sir.

[The prepared statement of Earl Pryor follows:]

Statement of Earl Pryor, President
National Association of Wheat Growers
before the
International Trade Subcommittee
of the
Senate Finance Committee
on
Reorganization of International Trade Functions
February 27, 1984

Mr. Chariman and Members of the Subcommittee:

I am Earl Pryor, President of the National Association of Wheat Growers and a wheat producer from Condon, Oregon. The NAWG wants to thank you for the opportunity to comment on legislation that would restructure our international trade policy.

Before discussing the proposed legislation, I would like to briefly review our nation's trade position and provide the Subcommittee with an overview of what agricultural trade means to this nation.

In 1983, U.S. foreign trade ran an estimated $60 billion in the red, or 18 times the level of 1973. White House economist Martin Feldstein forecasts a $100 billion trade deficit in 1984, while Data Resources Inc., predicts the deficit could reach $174 billion by 1990.

One obvious cause of the trade deficit is the relative value of the dollar. The dollar will cause U.S. imports to reach a projected level of $300 billion in 1984, up from approximately $265 billion in 1983. What has the dollar meant to agricultural trade and employment? A recent report by Wharton Econometric Forecasting finds that a 10 percent increase in the value of the dollar reduces wheat exports by three percent, corn exports by 3.7 percent, and soybean exports by 7.7 percent. The U.S. Department of Agriculture estimates that the rise in the value of the dollar in 1981 and 1982 reduced the value of U.S. agricultural exports by $3 billion, or about 16 million tons. All lost export sales have cost this nation about 1.5 million jobs. The marketing difficulties caused by the value of the dollar translates into lower farm prices and higher program costs for the government.

Of course other factors have entered into the reduction of agricultural exports. Certainly the economic difficulties faced by many of our trading partners have caused them to reduce purchases. Also the foreign policy of this nation has drastically affected exports. The recent textile dispute with the Peoples Republic of China is a perfect example.

Due to our dispute with the PRC, wheat farmers, and the nation, lost over $500 million in export earnings last year. In more graphic terms, the lost wheat sales amounted to the production off of 4 million acres, or about 10 times the combined size of Los Angeles, San Francisco, New York City and Washington, D.C. While you may state that the PRC will purchase the minimum amount under our long term agreement, the very basic questions arise as to how much business and credability we lost due to our actions. The PRC bought $2.2 billion in U.S. agricultural products in 1981, but spent only $546,000 in 1983. We cannot continue to view agricultural trade, or any other product trade, as separate and distinct from the world international trading patterns.

Let me back up and review agriculture's export structure. The USDA received a mandate from Congress in 1954 to expand export markets for agricultural products. This law is commonly referred to as P.L. 480 and provides for the export of U.S. products on concessional terms. P.L. 480 has provided the base for American farmers to establish new markets and develop long-term trade relationships. Many countries have graduated from P.L. 480 assistance to commercial purchases of U.S. grains. Good examples of countries in this category are India, Japan and Korea.

In addition to P.L. 480, USDA administers the very successful "cooperator" program. Cooperators are nonprofit agricultural producer groups which work with government to stimulate exports. These cooperators bring together foreign buyers and U.S. technical experts to facilitate sales and exchange market information. It is a successful and integral program in agricultural export development, and is a good example of a joint public and private project with a sound track record.

The USDA also maintains trade offices in different parts of the world, in addition to agricultural attaches in embassies. These officials supply U.S. farmers with crop conditions, market information, and assistance in sending trade teams overseas. Wheat farmers have also joined together in funding and staffing offices in foreign nations for the sole purpose of market development.

Complementing this entire structure is the excellent relationship that commodity groups have maintained with the U.S. Trade Representative (USTR). In their negotiating role, USTR officials have shown a thorough knowledge of agricultural issues and in bringing these and other special interests into balance with political and economic considerations. The USTR, as a White House organization, maintains its status as an impartial referee while listening to the concerns of Congress, the Administration, and trade organizations. We believe USTR performs a difficult task well. Trade policy should continue to be a White House function, and the President should have foremost responsibility for its development and implementation.

S. 121 would take the USTR as a visible and well-respected negotiating body and downgrade it to a position within the office of the proposed Department of International Trade and Industry Secretary as well as stripping it of its cabinet position. Denying an ambassadorial rank to the USTR will hinder its operations and clearly reduce its current stature. Wheat farmers are gravely concerned that, through this downgrading, the rapport that has been established among USTR, farmers, USDA, and foreign trading partners would be lost. The role of USTR may well become subservient to other DITI functions and agriculture will take a back seat to the concerns of other interests.

The creation of DITI will in fact cause greater trade decentralization than is currently the case. Our trading partners will view the reorganized USTR on par and competing with other DITI agencies of domestic commerce, travel and tourism, and patents and trademarks. The time that it will take to restructure

Commerce, USTR, and the other agencies involved will cause confusion and consternation among our trading partners as well as export industries.

It is also unlikely that numerous other departments, such as State or Defense, will relinquish their export policy activities. If this is the case, several additional and often conflicting layers will be created between trade policy advisors and the President. The honest-broker role now held by USTR will essentially be moved into the Office of the Secretary, while a presumably much weaker policy committee will take its place.

S. 121 may provide for a DITI agricultural Assistant Secretary, permit USDA to have a possible role in international negotiations, and for the Secretary of Agriculture to sit on the White House Trade Policy Committee. But agricultural trade will be adversely affected by creating DITI. The legislation provides that the USDA will not play a definitive role and may only be consulted by DITI on the trade of agricultural products. With USDA reduced to advisory status and other agencies claiming jurisdiction over trade issues formerly handled by USDA and USTR only, agriculture will be weakened.

Farmers know all too well what happens when agencies not having agricultural constituencies make agricultural trade policy. Again, the most vivid example is the protracted textile negotiations during which the Peoples Republic of China refused to purchase agricultural products until the issue was settled. The Russian grain embargo is also fresh in farmers' minds and the harm which it did to the agricultural economy is known to the members of this Subcommittee. The embargo also remains fresh in the minds of those who look to purchase U.S. goods.

In addition, the placing of a Chief Negotiator for Textile Matters within the department and providing the rank and status of Ambassador for this individual points to an obvious diminishment of agricultural interests within the trade policy community.

As producers, our association cannot support legislation that would place us at a disadvantage to others when foreign purchases account for such a large proportion of our income.

S. 1723 introduced by Senator Mattingly appears to move in the right direction. NAWG supports the concept that the President must direct and coordinate international trade policy and that the USTR be retained under the umbrella of the White House. It is imperative that the trade policymaking process be managed by the President, or a representative of the White House who has full and direct assess to the President. Anything less will indicate to our trading partners that exports are not a priority of this nation, and those who speak of trade are not those who direct trade policy.

In our judgement, the stature of the Trade Representative could be further enhanced and his mission could be performed more effectively if the President were to abolish the Cabinet Council on Commerce and Trade and the Senior Intergovernmental Group on International Economic Policy. These two elements of the bureaucracy have produced a web of duplication and confusion in U.S. trade policy formulation. Elimination of these often conflicting units would streamline current trade policymaking and assure that the President's Trade Representative could perform his duties without needless bureaucratic complication.

Mr. Chairman, agriculture comprises 40 percent of the nation's total exports. Exports account for fully one-fourth of farmers' marketing returns and 33 percent of all U.S. farmland is planted for the export market. It is our feeling that government and the agricultural sector have developed a workable and efficient policy and trade promotion structure that will enable us to continue to provide a positive agricultural trade balance and create jobs in related fields, such as transportation and processing.

The new trade department created by S. 121 would hinder the efficiency and aggressiveness of the USTR and may well restrict USDA activities in opening and maintaining export markets for agricultural products.

Maintaining the USTR within the purview of the White House and allowing USDA to maintain its present authority relating to agricultural trade negotiations would better accomplish the goal of building a stronger economic base and or promoting U.S. trade interests than would the legislation under consideration today.

Mr. Chairman, we have appreciated the opportunity to comment on trade reorganization proposals under consideration by this Subcommittee. I will be pleased to respond to questions from the subcommittee at the appropriate time.

Senator DANFORTH. Mr. Tussey.

**STATEMENT OF GLENN TUSSEY, ASSISTANT DIRECTOR, NATIONAL AFFAIRS DIVISION, AMERICAN FARM BUREAU FEDERATION, WASHINGTON, D.C.**

Mr. TUSSEY. Thank you, Mr. Chairman.

Last year the American Farm Bureau opposed the organization of a new Cabinet level trade department. That opposition was reaffirmed by our delegate body at our annual convention as recently as January 1984.

That opposition revolved around these three major points: First, while it appears that the trade functions of the USDA are not to be included in current plans for a new trade department, we are still concerned that the foreign agricultural and the USDA functions in the agricultural trade negotiating process may be diminished.

We are also concerned that duplicative market development activities may occur, and that USDA trade functions may be governed by guidelines issued by the new trade department.

The Farm Bureau fears that if the trade reorganization came about, that eventually agriculture, which as has been pointed out here represents $35 to $40 billion worth of exports, would either be drawn into the new department or it would be isolated from any real important trade role.

Our second reason for our opposition is that while we applaud the objective of increased emphasis on trade, we believe that the interest of the agricultural community can best be served with USTR serving with White House status in a coordinating role.

It has been pointed out here by other speakers that each agency of Government has very legitimate interests in the area of trade. We feel that it requires someone to coordinate that effort, and to coordinate those interests and we believe that that can best be done by an arm of the White House.

In this capacity as coordinator, the USTR can better reflect trade interests of vital concern to agriculture and it can better coordinate the actions of other Government departments.

We sincerely believe that greater Presidential involvement in trade would prevail if USTR remains a part of the White House. As was pointed out earlier, we have doubts too that the President is going to chair trade meetings as has been indicated that the case might be in the new trade department.

Our third reason for opposing the proposal is that it appears that the proposed new trade department is being built around an existing department; namely, the U.S. Department of Commerce. The Department of Commerce, of course, has a constituency of its own. That constituency often has interests that do not coincide with the interests for farmers and ranchers. Sometimes those interests get expressed in terms of quotas on automobiles, quotas on motorcycles, limitations on steel imports, and other actions which could result in retaliation against American farm products.

Senator Grassley earlier expressed concern about the People's Republic of China/U.S. textile negotiations and the impact of that on American farm products. If there was any warmth among our members to embrace a new trade department, it was cooled rather quickly when we saw what happened last year when a client of the Department of Commerce, the textile interests, tried to get trade negotiations delayed. We were pressing that negotiations move along. And during that interim the Chinese embargoed some commodities from the United States and just ceased buying grains from us. They got way behind in their grain purchases, and that convinced many of our people that our interest would not be served in a new trade department.

In summary, Mr. Chairman, I could say that USTR's hand could be strengthened—perhaps it would be good for the President to reaffirm that indeed Bill Brock speaks for trade. That could be done without any new legislation. We think that that would be the way to go about strengthening our trade role.

Thank you.

Senator DANFORTH. Thank you, sir.

[The prepared statement of W. Glenn Tussey follows:]

STATEMENT OF THE AMERICAN FARM BUREAU FEDERATION
BEFORE THE SUBCOMMITTEE ON INTERNATIONAL TRADE OF THE
SENATE COMMITTEE ON FINANCE
REGARDING TRADE REORGANIZATION

Presented by
W. Glenn Tussey, Assistant Director, National Affairs Division

February 27, 1984

The American Farm Bureau Federation appreciates the opportunity to comment on the proposed trade reorganization. First, I would like to say that Farm Bureau has always taken a great interest in agricultural trade. Farm Bureau was instrumental in the development and passage of such important trade legislation as P.L. 480, and we have taken an active role as a private sector advisor in each of the trade negotiating rounds going back to the Dillon round and continuing on through the Kennedy round and the Tokyo round.

Farm Bureau is concerned today as never before with the export situation confronting American farmers and ranchers. Regrettably, the long streak of a dozen or more years of record breaking U.S. farm exports was broken in Fiscal Year 1982 when exports declined to $39 billion from the all time record of $43.8 billion for the previous year. The forecast for this year is only $34.5 billion. The decline of almost $10 billion in so short a period is severe.

Some of the factors producing this darker export picture are (1) oversupply on a market weakened by severe worldwide recession, (2) shrinking world trade, (3) strengthening of the U.S. dollar in relation to certain other currencies, (4) a shift in trade patterns because of previous embargo experiences, (5) an increase in protectionism, and (6) unfair trade practices.

Mr. Chairman, some of the factors affecting U.S. exports, especially the relationship of the strong U.S. dollar to other currencies, has more effect on our export situation than the way government trade functions are organized or structured. This does not mean, however, that the organization of U.S. Government trade functions is not important, and I do not wish to make light of any improvement in trade that might come about through the restructuring of the U.S. Government. However, the agricultural community, including Farm Bureau, is quite pleased with the way the Foreign Agricultural Service of the USDA and the U.S. Trade Representative's office have been performing their missions. We are fearful that their role might be subordinated or otherwise changed to the detriment of the interest of American agriculture.

Mr. Chairman, in a letter to Senator Roth of June 16, 1983, we stated some of our concerns regarding the proposed reorganization and restructuring of the role of the Foreign Agricultural Service and the office of the U.S. Trade Representative.

In that letter, we asked that the trade functions of the Foreign Agricultural Service (FAS) of the U.S. Department of Agriculture not be included in the proposed trade department for these reasons:

(1) the distinctiveness of market development and trade matters relating to agriculture,
(2) FAS's excellent track record in market development,
(3) the unique relationship between FAS and cost-sharing private industry cooperators in the promotion of U.S. farm products, and
(4) the need to coordinate U.S. domestic farm policies with the export policies for agricultural exports.

While it appears that the trade functions of the USDA are not to be included in current plans for a new trade department, we are still concerned that FAS/USDA functions in the agricultural trade negotiating process may be diminished, that duplicative market development activities may occur, and that USDA trade functions may be governed by guidelines issued by the new department of trade.

Farm Bureau fears that if the trade reorganization comes about, eventually Agriculture, representing $35 - $40 billion worth of exports, will be drawn into the new department or isolated from any important trade role.

Regarding USTR, we stated in our letter that "The reorganization plan has caused many agriculturally oriented groups, including Farm Bureau, to realize that the U.S. Trade Representative's office headed by Ambassador Brock, should remain as an 'arm' of the White House."

Farm Bureau applauds the objective of increased emphasis on trade; however, we believe that the interest of the agricultural community would best be served if USTR retains White House status as the Congress earlier specified, i.e., remains above the other line agencies of government. In this capacity, not only can USTR better reflect trade interests of vital concern to agriculture but it can better coordinate actions of the other government departments concerned with trade. Farm Bureau sincerely believes that greater Presidential involvement in trade would prevail if USTR remains a part of the White House.

Furthermore, Farm Bureau is fearful that some of the present preoccupations with trade reorganization may diminish the government's efforts to keep the unresolved trade problems as "front burner" issues.

It also appears to us that the proposed new trade department is being built around an existing department, namely the U.S. Department of Commerce. The Department of Commerce, of course, has a constituency of its own. That constituency often has interests that do not coincide with the interests of farmers and ranchers. Sometimes those interests get expressed in terms of quotas on automobiles, quotas on motorcycles, limitations on steel imports, and other actions which could result in retaliation against American farm products.

Sometimes our interests can be hurt as was recenty demonstrated when textile negotiations between the U.S. and the People's Republic of China dragged on for many months without any clear resolution, resulting in the breaking off of those negotiations last January. This was followed by an embargo on any further purchases of soybeans or cotton by the Chinese. Although under a trade agreement to take a minimum tonnage of grain, those purchases have lagged considerably this year with only 2.6 million tons against a purchase record of 5.6 million tons for the same period last year. It was only through strong efforts by the agricultural community to get this issue resolved that the textile accord with the Chinese was finally reached in July. Since then the PRC has reentered the U.S. market and made additional purchases of U.S. grain.

I use this example to illustrate two points.

(1) Agricultural interests cannot be left in the hands of those unfamiliar with agricultural problems or with a major interest in other areas
(2) Agricultural interests cannot be served in isolation. We must, out of necessity, be interested in what happens in the steel, automobile, and motorcycle industries because of the implications for agriculture.

Mr. Chairman, quite frankly, we believe that our interests are better served with both the Foreign Agricultural Service and the U.S. Trade Representative's office located where they are and playing their current roles.

While S. 121 transfers no functions from the Department of Agriculture to the proposed Department of International Trade and Industry, it creates authority in that Department to duplicate activities of the Foreign Agricultural Service. In particular, Section 202 authorizes the Secretary of International Trade and Industry to seek and promote new opportunities for American products and services to compete in the world marketplace.

These are functions now carried out for agricultural products by the Foreign Agricultural Service. The role of the Foreign Agricultural Service recognizes the distinctiveness of market development and trade matters relating to agriculture, the unique relationship between FAS and cost-sharing private industry cooperators in the promotion of U.S. farm products, and the need to coordinate U.S. domestic farm policies with the export policies for agricultural exports.

Section 202 also establishes the Secretary of International Trade and Industry as the principle advisor to the President on international trade policy. However, since the major program responsibilities of the Secretary will be related to industrial products, it is not realistic to expect the Secretary to give equal, or even reasonable attention to agricultural products.

When the Congress established the Office of the United States Trade Representative, then the Special Trade Representative, in 1962, that organization was established in the Executive Office of the President precisely in order to allow the Special Trade Representative to serve as an honest broker of the national interest between a number of legitimate interests including industry, agriculture, labor and foreign policy. While S. 121 retains an interagency committee structure to consider the weight of these several interests, it will no longer be a committee of equals, instead the committee will be chaired by an agency with a vested interest in industrial policy.

Under present law the United States Trade Representative has a responsibility for developing international trade policy and conducting international trade negotiations, including those related to commodity matters. Many commodity issues are exclusively agricultural in nature, such as the international commodity agreements which now exist for wheat, dairy products, beef, sugar and coffee. As a practical matter, the United States Trade Representative relies heavily on the specialized knowledge of the Department of Agriculture in carrying out these responsibilities for commodity policy. This working relationship is relatively easily established as long as the United States Trade Representative is an independent spokesman for United States trade policy. If, however, this general trade policy responsibility is transferred to a new department with orientation in industry rather than agriculture, it is much less certain agricultural interests will be adequately considered.

Section 202(f) instructs the Secretary of International Trade and Industry to consult the Secretary of Agriculture on matters involving agriculture and permits the Secretary of Agriculture to be a vice chairman of international meetings involving agricultural products. This arrangement is much less reassuring than the present one in which that same discretion is vested in an independent agency directly located in the Executive Office of the President.

Section 261 revises the structure of the present Trade Policy committee to provide that the President shall be chairman and the Secretary of International Trade and Industry shall be chairman pro tempore. The Secretary of Agriculture is listed as a vice chairman. This may appear on the surface to be an effort to elevate the importance of the committee and the role of the Secretary of Agriculture within it. In practice, however, it is clear that under normal circumstances the Committee would be chaired by the Secretary of International Trade and Industry, so that other departments of the government would not have an equal voice. If it is the intent of the legislators to provide for a more effective interagency structure, a better solution might be to keep the United States Trade Representative as an independent agency with direct access to the President. Then the President might chair the committee with the Trade Representative as the chairman pro tempore, and any of several other cabinet officers might serve as a vice chairman depending upon the subject before the Committee.

Section 226 also provides that the Secretary of International Trade and Industry may appoint in his department an agricultural advisor, if so requested by the Secretary of Agriculture. The agricultural advisor would act as a liaison between officers and employees of the department and officers and employees of the Department of Agriculture. In theory, such an individual would provide a stronger and closer relationship between the two departments. On the other hand, the mere fact that such an advisor might be needed simply points out the fact that a Department of Trade which is oriented towards industry will by its very nature be ill-equipped to speak for United States agriculture.

While we understand Senator Mattingly's desire to offer compromise legislation, we believe that the basic objectives of his bill, S. 1723, can be accomplished by the President without additional legislation. For example, the USTR already has White House status and the President, without additional legislation, can let the world know that Ambassador Brock speaks for him on trade. This would resolve any doubts within the U.S. Government and any misconceptions that might be held by foreign governments.

Mr. Chairman, for these reasons, Farm Bureau opposes S. 121 and believes that S. 1723 is unnecessary.

Senator DANFORTH. Mr. Reed.

STATEMENT OF JOHN REED, VICE PRESIDENT—INTERNATIONAL, ARTHUR DANIELS MIDLAND CO., DECATUR, ILL.

Mr. REED. Thank you, Mr. Chairman, for the opportunity to appear here this morning.

I have earlier this morning submitted a written statement which I would like to ask be made part of the record, and I will try to summarize that briefly.

In order to help you gentlemen understand the perspective from which I'm about to speak, I should perhaps point out that my employer, Arthur Daniels Midland Co., is one of the largest U.S. processors and exporters of grains, soybeans, and other oil seeds, and exporters of manufactured products made from those basic agricultural commodities. We are vitally concerned with exports.

In addition to my corporate responsibilities, I'm also chairman of the International Trade Policy Committee of the National Soybean Processors Association. In that capacity, I am currently deeply involved in the pursuit of a number of complex trade issues, the pursuit arising out of the filing of a global section 301 petition by the National Soybean Processors Association last April. The reason for the petition is the existence of processing and export subsidies being used by the countries of Brazil, Argentina, Spain, Portugal, Malaysia, and Canada. At the present time I find myself spending more than 50 percent of my time on those trade issues on behalf of the industry as a whole.

I have since 1977 also served as a member of the Private Sector Advisory Committee to the Special Trade Representative and the Secretary of Agriculture.

Now with that background, the testimony I'm about to present is that of Arthur Daniels Midland Co. and not of the National Soybean Processors Association.

It seems to us that achieving balanced, effective trade policy is necessarily a very difficult undertaking. It's difficult because it is very complex. And it's very complex because most trade issues are going to be viewed differently by different constituencies.

Industry, agriculture, labor, and the financial community are often going to differ in three or four ways on specific trade issues. And for that reason, the cabinet departments which represent them, plus State and Treasury, are also going to look at different trade issues with a different perspective.

We feel that that fact probably was one of the main reasons why Congress created the Office of the Special Trade Representative in 1962. We think that in order to achieve balanced, effective trade policy, given the fact that the issues are complex, and given the fact that they affect different major interest groups in different ways, and given the fact that it will at times be impossible to reconcile the differences of opinion and somebody has got to make some tough decisions based on what is in the overall national interest, we believe that the responsibility for trade issues should continue to be centralized within the Executive Office of the President.

Congress properly recognized this need in 1962 and again in 1974 and again in 1980. We think Congress was correct. And despite the recent problems and the current problems which other witnesses have described in some detail this morning, we think that the basic structure legislated by Congress "ain't broke, and it shouldn't be fixed."

We, therefore, have three specific recommendations for your consideration. First, we think that Congress should establish a commitment to increase exports as a clear-cut national policy of the highest priority.

Second, we recommend that Congress retain and strengthen the Office of the Trade Representative functioning as part of the Executive Office of the President.

Third, in order to clear up one source of ambiguity and confusion that evidently exists today, we suggest that Congress enact legislation specifying that the Cabinet-level Trade Policy Committee, chaired by the U.S. Trade Representative, have the sole interagency responsibility for trade policy coordination.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Reed follows:]

TESTIMONY OF JOHN G. REED, JR.

Thank you, Mr. Chairman, for the opportunity to appear before this subcommittee today. My name is John G. Reed, Jr. I am Vice President, International, of Archer Daniels Midland Company, ("ADM"), with headquarters in Decatur, Illinois. ADM is a major processor and exporter of soybeans and other oilseeds, corn, wheat, barley, and processed products derived from those primary agricultural commodities.

In addition to my corporate responsibilities, I serve as Chairman of the International Trade Policy Committee of the National Soybean Processors Association, ("NSPA"). In that capacity, I am deeply involved in trade consultations resulting from a global Section 301 Petition filed by the NSPA in April, 1983, because of processing and export subsidies employed by Brazil, Argentina, Spain, Portugal, Malaysia, and Canada. Since 1977, I have served continuously as a member of the private sector Agricultural Policy Advisory Committee to the U.S. Trade Representative and the Secretary of Agriculture.

I am appearing today solely as a representative of ADM. We urge that the Office of the U.S. Trade Representative, with its responsibilities for coordinating trade policy and conducting trade negotiations, be retained and strengthened in the form Congress originally intended. These critical functions should remain centralized within the Executive Office of the President, and should not be delegated to any other department or agency within the Government.

The achievement of balanced, effective trade policy is an especially difficult undertaking because of the need to consider, evaluate, and reconcile many conflicting interests. Industry, agriculture, labor, and the financial community frequently have opposing views on specific trade policy issues. The Departments of State, Treasury, Agriculture, Labor, Defense, Commerce, and Justice also frequently have conflicting views on trade policy issues. Each of these agencies represents a different constituency and a different institutional point of view. These points of view cannot and should not be ignored. They must be recognized, given adequate consideration, and reconciled if possible. When reconciliation is not possible, difficult decisions have to be made. For all these reasons, the key to consolidating trade policy formulation is workable interagency coordination, not the establishment of a new department.

Trade issues which do not undergo the leavening of interagency coordination tend to result in trade policies which are skewed to a particular bias and counterproductive to the overall national interest.

Improved interagency coordination will not be accomplished by grafting USTR onto the Commerce Department. Current problems of trade policy coordination are caused by the fact that several different mechanisms exist for this purpose. The Cabinet level Trade Policy Committee, the Cabinet level Council on Commerce and Trade, and the Senior Interagency Group all have responsibility for trade policy coordination. The predictable results have been confusion, conflict and trade policy paralysis. This problem should be solved by establishing a single body for interagency policy coordination.

ADM proposes that Congress enact legislation which clearly specifies that the Cabinet level Trade Policy Committee, chaired by the U.S. Trade Representative, has the sole interagency responsibility for trade policy coordination. This would solve the problem of centralizing trade policy coordination within the Executive Branch. Congress should reassert the primacy of the U.S. Trade Representative as a neutral broker between the various agency viewpoints. USTR performed this function affectively in the past, and it should be allowed to do so again.

Proposals to develop U.S. exports and open markets abroad for U.S. goods are highly laudable, and we in agriculture and agribusiness support those objectives. However, we believe those objectives can be achieved most effectively if Congress will do the following:

First, establish a clear-cut commitment to increase U.S. exports as a matter of highest national priority. In view of our burgeoning record trade deficit, such a commitment is already over-due.

Second, re-affirm Congress' original intent that the Office of the U.S. Trade Representative, functioning within the Executive office of the President, has exclusive responsibility for trade policy formulation and trade negotiations.

This is not the time to downgrade trade policy and negotiating functions within our Government. Formulation of trade policy should be kept close to the White House. This can best be accomplished by keeping the office of the U.S. Trade Representative within the Executive Office of the President. Trade Policy can only be made properly if it is made close to the center of authority, and it will only be implemented properly if it comes from the top. Furthermore, our trade negotiators are likely to be more effective if they carry the personal authority of the President and continue to enjoy a special relationship with the Congress.

In other types of international negotiations, the President will sometimes appoint a personal representative or special ambassador in order to upgrade the level of U.S. representation. The idea of a permanent high level negotiator for trade matters is more timely today than it has ever been in the past. This point was proven in the Tokyo Round of Trade Negotiations when the United States successfully took the initiative in a broad range of trade issues. In negotiations conducted by USTR, we were able to achieve multilateral agreements on matters ranging from tariff cuts to export subsidies to customs valuation. We should return to the format of our previous successes, and not further depart from it.

Thank you for the opportunity to appear before this subcommittee today.

Senator DANFORTH. Gentlemen, thank you very much for excellent testimony.

I think that the point you make is exactly right. The issue is do we want an honest broker or do we want an advocate for specific interests. And the problem, as you pointed out, is that we don't have a unified voice within our country on international trade. Anything that is done will have winners and losers. With respect to China and textiles, whatever the Government does, somebody is going to win and somebody is going to lose. Agriculture will lose, the texile industry will win, importers will lose, exporters will win. Whatever the deal is, some people are going to be happy and some people are going to be unhappy.

If we have a new department of trade in which the USTR is no longer to be an honest broker coordinating the various conflicting interests, but is instead going to be folded into what is now the Commerce Department, there is absolutely no question that agriculture will be the loser. That is why virtually all the farm organizations—maybe one or two exceptions—but that is why virtually all of the farm organizations have been opposed to this bill.

You are right. You are right. What you hope for, as I understand it, is not that the Government's decisions on trade negotiations or trade policies will always be resolved in your favor, but simply that you have a strong voice in the creation of that policy so that we don't have, in effect, of the Commerce Department deciding trade matters.

I have, I think, reiterated pretty much what you have said. I don't know if you want to embellish on it at all.

Mr. TUSSEY. I think that's precisely right. I go back to the words of Mr. Hormats, who worked and lived through the Geneva trade talks. And then and in earlier trade negotiating sessions, a linkage between agriculture and industrial products was very important. Also another statement that he made that I thought was quite good was that perhaps all we need to do is some fine tuning at USTR. We think we have the mechanism and the vehicle, a little bit of fine tuning and perhaps reaffirmation, as I indicated earlier, by the President that Bill Brock is indeed speaking for trade, I think that would do the trick.

Senator DANFORTH. Wouldn't we be better off if the USTR and the Trade Policy Committee operated as Congress intended them to operate—rather than to set up a new department or rather than the existing situation where the administration, on its own motion, has created a separate track with its Cabinet Council on Commerce and Trade, and where the Secretary of Commerce is going out and basically trying to do the same thing that we ask the USTR to do?

Mr. TUSSEY. That would be precisely our view, Senator Danforth.

Mr. REED. And ours.

Mr. PRYOR. Really, that's the thrust of my remarks. Is that we need to get on with what we are doing and do a better job of it. Not trying to wring our hands and trying to reinvent the wheel yet. The whole problem lies in essence, I think, in the public perception of what the value of international trade is for the United States. With the policy we have now, it's really a buy foreign policy because I don't see any action being taken that really impacts the value of the dollar.

Senator DANFORTH. Right. We have gone through this before—we created the Department of Energy after being told, well, we need a new Cabinet-level department to solve the problems of energy. We created the Department of Education after being told, well, that's how to fix education. It never works. Now we are being told, well, we have a trade deficit, therefore, we need a Department of Trade. That will not reduce the value of the dollar by a penny. It will not reduce the Federal deficit by a penny. It will just be a bureaucratic reshuffling and it will be the kind of reshuffling which will leave the farmer at the back end.

Senator Roth, you agree? [Laughter.]

Senator ROTH. Not quite. Let me start out by saying that I happen to think a number of things need to be done in the policy area as one who strongly believes in a strong export policy. And I really wish that today the Finance Committee was dealing with the problem of trade policy.

But I also strongly believe, as many others do, that organization is important. And let me speak very candidly. I understand that many of the Washington groups are always opposed to change. There's nothing new about that. I can say also in all candor—you know, Delaware happens to be a farm State, too. And many of my constituents have told me back home that the real opposition to reorganization is coming from Washington.

But be that as it may, let me express what we are trying to do. I happen to feel very strongly that we have got to strengthen the hand of agriculture. I happen to think that our legislation does exactly that. We have not removed the basic responsibilities from the Department of Agriculture, because that is what agriculture wants. It would not like it to be put into a new department. And for that reason I oppose any shifting of the Foreign Agriculture Service.

But I would also point out that to strengthen the hand of agriculture we have done a number of things. We have insured that there is representation for agriculture in the new department. We have written into the law that any negotiations that deal with agriculture must have the Secretary of Agriculture at least as vice chairman. There is no such requirement now.

I would also point out that we have insured that agriculture is represented on the various interagency committees in the White House. There still will be an independent voice to monitor and try to determine for the President, who, after all, is the ultimate authority, what is going to be done.

But in this interagency panel we have written into this law that the Secretary of Agriculture will be a member so that his voice will be heard.

But, gentlemen, the thing that bothers me is you say you are satisfied with what we have today. Now I can go down starting with the Nixon administration and the embargo of the soybeans. I can go down to the Ford administration and Carter administration when they embargoed wheat. One of my concerns is that there is no effective voice in Washington to speak up against embargoes when those decisions are made. And that's what we are trying to provide here.

We are providing that the Secretary of Trade as well as the Secretary of Agriculture will be involved in these various panels, including having the Secretary of Trade in the National Security Council when we are negotiating or talking about embargoes.

I don't have any particular questions of any of you at this time except to point out that it seems to me we are not doing as well as we should be in the export of agriculture products. When I voted for the trade negotiations of the Tokyo Rounds in 1974, if I recall right, Russell, part of the instruction was to do something about CAP in the common market. And it also was instructed that something was supposed to be done with Japan's agricultural trade practices. But because our trading partners were so strong in these areas, nothing significant was accomplished. I think what we need is to create a stronger advocate for our trade, including agriculture products, but maintain, as this legislation does, an independent voice that will try to coordinate this goal, monetary, and agriculture as well as trade policies. So I would urge you gentlemen to take another look before you get locked in glue on this question.

Thank you, Mr. Chairman.

Senator DANFORTH. Anybody want to respond?

Mr. PRYOR. I would love to. I'm a wheat farmer from eastern Oregon. A hands-on producer. I don't have the expertise or an indepth examination but my reaction is based upon what has happened. The track record, as I said before, doesn't establish the fact that agriculture is going to fare better. I think the staffing that is involved in this endeavor needs to be articulated to us so that we can judge what kind of treatment we are going to get. Flow charts with boxes don't tell us much. It is the built-in biases of those people who are at the heads of those who inhabit these boxes that really make the impact on what is going to happen to agriculture. We need to see what kind of commitment we are going to have to agriculture in the selection of these people. That is up for grabs at this point, and I don't think that there is any way that we can support it until we see what the opportunities are.

Senator DANFORTH. And it would change from administration to administration.

Mr. PRYOR. Absolutely.

Senator ROTH. Just let me point out you will not be changing the Department of Agriculture as it currently stands. But I agree with you. As one who has fought for the export of wheat and against the embargoes, irrespective of whether it's Republican or Democratic administrations, I share your concern. Let me assure you that I am as interested, and I think the Farm Bureau will tell you that I'm as interested in exports of agriculture as anyone. It's a very major interest in my own State. But I think your concerns are legitimate, and we would be very much interested in working in these areas with you.

Senator DANFORTH. Senator Long.

Senator LONG. No questions, Mr. Chairman.

Senator DANFORTH. Senator Bentsen.

Senator BENTSEN. I'm one who hasn't made a final decision on the reorganization that has been proposed for the Commerce Department to develop a trade department. I frankly think something has to be done to get a better coordinated effort. I don't think a very effective job has been done in the past.

I am also one who is very much in farming. And most of those things we raise on our farm are sold for export. We are primarily in milo. And I'm not going to be a part of any deal unless we can take care of that aspect of trade also. Russell Long from Louisiana who just said he didn't want to say anything—I will say something for him.

I'm like Russell Long. I'm against any combination I'm not a part of. And that goes for agriculture. They have to have a strong voice in anything we do. It's a major economy of my State of the constituency that I represent in my own State. And not just of our State, but of the entire Nation.

Furthermore, we must not lose what impetus that we do have in this area. We are in enough trouble now on exports of agricultural products. In the short run, I don't see it improving much. I think messages have to be sent like the one we sent in the wheat flour sale to Egypt. I don't think we can get the European Common Market to bargain seriously about the incredible subsidies they are providing their agricultural exports to break world markets unless we take actions like the Egyptian wheat sale to make them understand our concerns.

I think these concerns about agriculture are shared by virtually every member of this committee. Senator Roth was saying that he had opposed the agricultural embargoes. I'm one of a handful of Senators who opposed embargoes every time they were offered on agriculture, every time. I don't think you ought to ever put an embargo on another nation whether it's pipeline construction equipment or agriculture, unless you hurt that other country worse than you hurt yourself. I think it's dumb to do it otherwise and yet that is what we have done in this country of ours. And we have lost markets that were traditionally ours. And we have not recaptured many of them.

So some of the concerns on agriculture are shared. I'm not sure we will finally agree as to how we implement them. But some of us will be working hard to try to accomplish it.

Thank you.

Mr. REED. Mr. Chairman, may I have one more word?

Senator DANFORTH. Sure.

Mr. REED. On the subject of agricultural exports, I think we would all agree that we should be exporting more. It seems to us that there are basically two reasons we are not. The first is the size of the Federal deficit, the level of real interest rates and the strength of the dollar. And that problem can only be dealt with by Congress and the administration.

The second is the existence of export subsidies by many of our major exporting agricultural competitors. And in that area USTR has been rather aggressive in our opinion. They have taken a number of cases to the GATT. At the panel level they seem to be winning those cases in the GATT. The problem there seems to be that the GATT dispute settlement mechanism is not functioning properly, which is a problem that has got to be addressed and resolved.

But neither the strong dollar nor the foreign export subsidies are going to be solved in our opinion by grafting USTR onto a new cabinet department. Frankly, we think the chances of solving those problems would be much better if we retain an independent cabinet level agency such as we have today.

Senator DANFORTH. Gentlemen, thank you very much.

The next panel is Mr. Andres, Mr. Greenwald and Mr. Trezise.

## STATEMENT OF WILLIAM A. ANDRES, CHAIRMAN OF THE BOARD, DAYTON HUDSON CORP., MINNEAPOLIS, MINN., ON BEHALF OF THE NATIONAL RETAIL MERCHANTS ASSOCIATION AND THE AMERICAN RETAIL FEDERATION

Mr. ANDRES. Good morning, Mr. Chairman, and members of the committee. My name is William Andres. I'm chairman of the board of Dayton Hudson Corp. A copy of my remarks has been provided in advance. And I would ask that they be placed into the record.

During the time available to me this morning, I would only highlight the key points of my testimony. And this morning I am appearing with Mr. Joseph Greenwald, Esq., counsel to Weil, Gotshal & Manges. Together we represent the retail industry, including two large retail organizations—the National Retail Merchants Association and the American Retail Federation. In all the retail industry includes more than 1 million stores, employing over 14 million people and accounting for more than one-fourth of the GNP.

We have two principal objectives in appearing before you this morning. The first is to voice our concerns about the tide of protectionism arising throughout the Federal Government and the political system. And the second is to urge that overall trade responsibility, the formulation of trade policy and trade negotiations be retained within the office of the President of the United States. Specifically we oppose the reorganization plans that make these critical functions a part of any single department within the Government.

The retail industry is very strongly in favor of fair, equitable, and liberal trade, and the opening of markets to vigorous competition. Accordingly we oppose protectionism because we believe it's bad for the U.S. economy. And, more importantly, bad for the U.S. consumer.

Retailers have a very specific interest in open markets because we play a very specific role in serving the U.S. consumer. After all, we are the consumers' purchasing agent. And to do our job well, we must provide American consumers with the highest quality goods at the lowest possible prices, and with the best services that we can.

The retail industry believes very strongly that the consumer is best served by competition in the marketplace both here in the United States and in the international markets. The proposals to form a Department of Trade and Industry and to develop U.S. exports and open markets abroad for U.S. goods are all laudable concepts. However, we are troubled by the inclusion within such a department of two very critical activities.

First, the development of overall U.S. trade policy; and, second, trade negotiations on behalf of the Government of the United States. We strongly believe that these critical activities should not be the responsibility of any one department because departments by their nature serve only one sector of the economy.

Retailers believe that if the presently proposed administration plan, S. 121 is enacted, the Department of International Trade and Industry will continue to work for those industries that have traditionally commanded the attention of the Department of Commerce. And will short-change retailers and the consumers even more in the future than they have in the past.

In 1962 Congress and the President agreed that no one department could effectively coordinate the work of all the other departments on an issue of such pervasive importance. Only the President can do so.

As long as the U.S. Trade Representative has access to the President, speaks for the President, and has overall responsibility and administration of trade policy for the United States, all sectors of the economy, whether it's textiles, manufacturing, agriculture, services, and so forth, all have the opportunity for their voice to be heard and their issues to be considered in the same forum.

Retailers consider this a fundamental principle that must be retained in any trade reorganization plan. We think that S. 1723 is the first step in that direction. And we urge you not to diffuse authority as proposed in S. 121.

Let me now turn to my colleague, Joseph Greenwald, for his thoughts on the trade reorganization issue. Joe brings to this issue a unique combination of foreign service, State Department, and international business experience.

Thank you very much.

[The prepared statement of William A. Andres follows:]

TESTIMONY OF WILLIAM A. ANDRES

Good Morning.

My name is William Andres. I am Chairman of the Board of Dayton Hudson Corporation, a diversified National Retail Business headquartered in Minneapolis, Minnesota.

This morning I am appearing with Joseph A. Greenwald, Esq., Counsel to Weil, Gotshal & Manges. Together we represent the retail industry, including two large retail organizations: the National Retail Merchants Association, the largest trade association for the general merchandise retailing industry; and the American Retail Federation.

The American Retail Federation is an umbrella organization representing the retail associations of the 50 states and the District of Columbia; and some 30 national retail associations and retail corporations, both large and small, with the National Retail Merchants Association as one of the largest of the national organizations. In all, the retail industry includes more than one million retail stores, employing more than 14 million people, and accounting for more than one-quarter of the GNP.

We have two principal objectives in appearing before you this morning. The first is to voice our concerns about the tide of protectionism that is rising throughout the federal government and the political system.

The second is to urge that overall trade responsibility -- the formation of trade policy and trade negotiations -- be retained within the office of the President of the United States. Specifically, we oppose the reorganization plans that make these critical functions a part of any single department within the government.

The retail industry is very strongly in favor of fair, equitable, liberal trade and the opening of markets to vigorous competition. Accordingly, we oppose protectionism because we believe it is bad for the U.S. economy and, more importantly, bad for the consumer.

We support policies aimed at opening markets, not closing them, because we think those policies are in the overall national interest, as well as the interest of our customers. We regret that there is a growing tendency toward "managed trade" and attempts by government to control the marketplace by restrictive trade policies.

Retailers have a very specific interest in open markets because we play a very specific role in serving the United States consumer. We are the "customer's purchasing agent." To do our job well, we must provide American consumers with the highest quality goods at the lowest possible prices, and with the best services that we can.

The retail industry believes very strongly that the consumer is best served by competition in the marketplace, both here in the United States and in international markets. If we truly believe in competition, then we must apply the same standards to the international marketplace as we do here at home.

As an industry, we understand that imports can affect U.S. employment. We are also sensitive to the concerns regarding unfairness expressed by other American industries. Finally, we agree that our trading partners must understand that their markets must be fair and open, if ours are to be. Changing our structure is not going to help solve those problems.

The proposals to form a Department of International Trade and Industry, and to develop U.S. exports and open markets abroad for U.S. goods are laudable concepts. Retailers support those concepts wholeheartedly. In fact, several retailers are now both exporters and importers.

However, we are troubled by the inclusion within such a department of two critical activities: the development of overall United States trade policy, and negotiations on behalf of the government of the United States.

We believe strongly that these critical activities should not be the responsibility of any one department because departments, by their nature, serve only one sector of the economy. Such a department would work for the sector in which it is most interested. And would rightly listen more to that sector than any other. In this way, it would tend to ignore, or shortchange, other sectors of the economy.

Retailers have felt the sting of that type of behavior in dealing with the Department of Commerce. Recent history demonstrates, for example, that on decisions regarding textile administration, the Secretary of Commerce acted for the textile and apparel industry to the exclusion of all other interests, including retailing.

I call your attention to an article which appeared in the Wall Street Journal on January 6, outlining how a recent decision on textiles was reached by the President of the United States. All of the departments and agencies advising the Trade Policy Committee opposed the decision to increase protectionism for the textile and apparel industry. Yet the Secretary of Commerce, acting for those interests, turned the decision around with little or no regard for its effect on the retail industry, on the consumer market, and, indeed, on the broader aspects of this nation's foreign policy. The decision was made with little acknowledgement of the international cost that must be borne by other sectors of the economy because of the decision to favor one sector.

Retailers believe that if the presently proposed Administration plan (S. 121) is enacted, the Department of International Trade and Industry will continue to work for those industries that have traditionally commanded the attention of the Department of Commerce. This plan, we believe, will continue to shortchange retailers and the consumer (even more in the future than we have been in the past).

In 1962, Congress and the President agreed that no one department could effectively coordinate the work of all other departments on an issue of such pervasive importance. Only the President can do so. The Congress carefully considered the need for a united trade policy in the 1974 Trade Act. It reconstituted an office of United States Trade Representative with Cabinet-level rank directly responsible to the President, and with authority appropriate to that high office.

As long as the U.S. Trade Representative has access to the President, speaks for the President, and has responsibility for overall administration of trade policy for the United States, all sectors of the economy (textiles, manufacturing, agricultural services, etc.) have an opportunity for their voices to be heard, and their issues to be considered in the same forum. In addition, such an approach strengthens the hand of our negotiators, because foreign negotiators know that the representative speaks for the President.

We call your attention to the significant gains which were achieved in the Tokyo Round: the United States continued to pressure other nations for the development of their markets for U.S. goods. Non-tariff barriers were addressed. A valuation code was achieved. And significant international agreements were made in many areas. These gains were made possible by powerful U.S. government leadership where our trading partners were aware that the U.S. Trade Representative spoke for the President of the United States. Retailers consider this a fundamental principle that must be retained in any trade reorganization plans.

Let me quote - verbatim - from a paragraph on trade reorganization from the July report of the President's Advisory Committee on Trade Negotiations (a group appointed by the President representing labor and all sectors of agriculture and industry):

> "The creation of a new department of trade is not as simple as the creation of other Cabinet-level departments might be where a policy vacuum might exist, or

where solely sub-Cabinet level agencies could be merged to create a new department. A Department of trade would instead re-define well-established policy-making processes and institutions.

"It would remove trade policy development from the White House and give it a status co-equal to, and competitive with other Cabinet agencies, without necessarily establishing a strong White House coordinating agency, like the Council of Economic Advisors, or the National Security Agency.

"It would also alter traditional Congressional jurisdiction over trade policy development. And it has the potential of disrupting traditional lines of communication between the private sector and trade policy-makers.

"In addition, these changes, and the inevitable disruption they would cause, would occur at a time when the open international trading system has never been under greater challenge. And when domestic protectionist pressures have never been more intense."

Retailers want to see our trade policy revised and strengthened. The way to do it, in our opinion, is to strengthen the current system, keep control in the Office of the President, and improve its operation. S. 1723 is a first step in that direction. We urge you not to diffuse authority as proposed in S. 121.

Thank you very much.

Senator DANFORTH. Mr. Greenwald.

STATEMENT OF JOSEPH A. GREENWALD, COUNSEL TO WEIL, GOTSHAL & MANGES, WASHINGTON, D.C., ON BEHALF OF THE NATIONAL RETAIL MERCHANTS ASSOCIATION AND THE AMERICAN RETAIL FEDERATION

Mr. GREENWALD. Thank you, Mr. Chairman.

Mr. Andres has presented the views of the retailers in terms of their practical and specific concerns. What I would like to do very briefly, so we won't be seeming to use an excessive amount of time, is to present some views from my experience first as an ex-Government official, and second as a businessman who has spent close to 5 years in Japan representing an American company.

First on the organizational question, you had more recent experts in this field in your first panel. And I don't want to go over the ground that they covered. The only point that I would like to make is one that Hal Malmgren made. I think it's pretty evident that any organization depends very much on the people who are running it, whether they get along together, or whether they don't get along together. He pointed out that he goes back to an era, as I do, when we had the USTR initially instituted in the present form of organization and we didn't apparently—at least as I saw it—have the same problems that seem to have arisen in the last 2 or 3 years.

The other points are related to Japan. I think a number of people have made the point that the establishment of a new department is not going to necessarily solve our trade problems, and I agree with that. I think the real lesson to be learned from Japan is that the Japanese have made trade a national goal. And it's not just MITI, but it's every agency of the Government that is looking at the issue in a concerted and effectively coordinated way. But it isn't because they have the Ministry of Trade and Industry, it's because of the priority that they give to international trade.

There is an important difference between the United States and Japan in the priority that is given to trade and international economic issues. One of the reasons is that a country like the United States has larger responsibilities and it is much more difficult to reconcile the differences. You've talked about embargoes, for example. On the question of the pipeline, the Japanese were absolutely amazed that we kept Caterpillar from selling equipment for the pipeline. And one of their companies, Komatsu, benefited from that.

The point is that there are differences which require a coordinating function at the center, which the Japanese have, and which any government needs.

In conclusion, the important thing is that the priority given to the trade and foreign economic policy issues has to be higher than it has been in the past. And that, second, authority has to be given to somebody close to the President because in our system, no one agency is going to be able to do that effectively.

Thank you, Mr. Chairman.

Senator DANFORTH. Thank you, sir.

[The prepared statement of Joseph A. Greenwald follows:]

TESTIMONY OF JOSEPH A. GREENWALD, COUNSEL TO WEIL, GOTSHAL & MANGES, ON BEHALF OF THE NATIONAL RETAIL MERCHANTS ASSOCIATION AND THE AMERICAN RETAIL FEDERATION

My name is Joseph Greenwald. I have recently become counsel to the firm of Weil, Gotshal & Manges. For almost five years prior to joining Weil, Gotshal, I was President of the Far East subsidiary of a major U.S. company, stationed in Tokyo. Before that, I was Assistant Secretary of State for Economic and Business Affairs and held various State Department positions for the previous twenty-five years.

Mr. Andres has presented the views of the National Retail Merchants Association and the American Retail Federation in practical terms relating to the specific concerns of retailers. The retail industry generally agrees with the points made by the Subcommittee Chairman, Senator Mattingly, and others who feel the solution to our trade problems cannot be found in the creation of a Department of International Trade and Industry.

Rather than simply reiterate those points this morning, I woul like to address myself to the proposal before the Subcommittee from the perspectives of a businessman working abroad and of an ex-government official. These comments will be particularly based on my experience in Tokyo, where I served as a member of the Board of Governors of American Chamber of Commerce in Japan (ACCJ).

The frustration I felt as a government official and as a businessman working overseas was related not to the structure of the executive branch but to the lack of a trade and foreign economic policy which has the necessary high priority, visibility and commitment from the President and the Congress. Such a policy must also be clear, consistent, continuous, comprehensive and coordinated. The need for this kind of policy and the high priority which it must be given are generally agreed. Indeed, the debate over the legislation which is the subject of this hearing has contributed to the understanding of these facts. The sponsors of the legislation are to be commended for this valuable contribution to the future success of our trade policy.

At least some of the impetus behind this legislation has come from the contrast between the recent success of some of our trading partners and the perception that we have not done so well. Perhaps this contrast is sharpest in relation to Japan. And this is probably why many people have seized on the idea of a "MITI for the U.S." or "DITI." But it is obviously an over-simplification to think: Japan has a MITI; Japan has been very successful; therefore, the U.S. should have a DITI.

In my view, the real Japanese secret is the high priority they give to international trade. The famous Japanese consensus approach applies; the entire government, not just MITI, thinks in terms of promoting Japanese trade. To the extent that we want to learn from the Japanese success, this total government involvement and top priority treatment from the Prime Minister himself are the items to emulate.

As this suggests, the key to better trade policy formulation and implementation in the United States -- and to the success of our businesses in the world marketplace -- is not restructuring the executive branch. This is a side issue which detracts from the policy question. I believe the fundamental need is for sustained, high-level attention to U.S. economic interests abroad. Rather than reducing the role of a trade representative with direct access to the President and an overall coordinating function, his position should be strengthened. This would improve coordination among agencies which must continue to play an important part in foreign economic policy development.

Of course, Japan's narrower view of its role in the world helps them avoid some of the problems which face the U.S. For example, the Japanese were amazed when we prevented Caterpillar from supplying pipe-laying machinery to the

Soviet Union -- and Komatsu benefited. This example illustrates certain inevitable difficulties facing the U.S., given the much broader U.S. defense and foreign policy responsibilities. However, existence of these wide-ranging interests does not excuse a confused or contradictory U.S. foreign economic policy. Rather, it suggests the need for a carefully coordinated, comprehensive trade policy which takes all of these interests into account.

One avenue to achieve a comprehensive U.S. foreign economic policy is for all agencies to give more attention to the international aspects of their mandates. A recent move by the Department of Commerce, without any legislation, to consolidate the domestic and foreign trade components of its industry divisions is a step in the right direction.

On the other hand, creating a DITI which is apparently the repository of all of our trade interests but then excluding from it our main export sector, agriculture, makes no sense. The connection between wheat and soybean exports and our textile and apparel import policy was made dramatically clear a year ago when the Chinese stopped buying these agricultural products in response to U.S. demands for excessively restrictive limitations on textile and apparel imports from China. This example simply underscores the range of interests that must be considered in establishing our trade policy.

Continuity and coherence are also important elements of an effective U.S. trade policy. Our trading partners feel that our policies and practices tend to fluctuate. Sometimes we take a tough line on opening the markets of other countries. But then the pressure fades -- because our top people seem to lose interest, because there are personnel changes, because other policy considerations arise. Patience and persistence are essential for effective policy implementation. Further, we sometimes fail to use the assets we have to the best advantage -- too often giving without getting enough in return. A separate department competing for White House attention and interest will not, however, produce the necessary results.

In sum, the "DITI" proposal will not solve the trade policy problem. U.S. industry recognizes that, in nearly all sectors, it is competing in a global market. From the government, it needs a strengthened voice at the highest level for coherent, comprehensive and coordinated policies and programs. The commitment of the President is crucial. Establishing a new department is not the answer.

Senator DANFORTH. Ms. Brown.

## STATEMENT OF DOREEN L. BROWN, PRESIDENT, CONSUMERS FOR WORLD TRADE, WASHINGTON, D.C.

Ms. BROWN. Mr. Chairman, I would like to read our rather short statement into the record and Ambassador Philip Trezise, who is a member of our board of directors, will join us in comments or discussion afterwards.

Just one word about Consumers for World Trade. We are a national nonprofit organization established in 1978 and we are concerned with the consumer interest in U.S. international trade policy.

The American consumer has a fundamental, pocketbook, standard of living interest in the formulation and conduct of U.S. international trade policy. Simply put, an open, liberal trade policy makes his or her income go further and widens his or her range of choice. Protection in all its forms cuts down consumer purchasing power and arbitrarily limits the right to choose.

It might be supposed, therefore, that the interest of 235 million consumers would be a priority concern of trade policy. Unfortunately, that is not exactly the case. Our trade laws, which run through scores of pages, make only glancing reference to the interest of consumers. In the application and administration of these laws, the focus tends to be on relieving particular groups of producers from the rigors of import competition. Only occasionally are costs and benefits to consumers and thus to the whole national economy officially calculated, and then usually by agencies other than those in the trade policy mainstream.

If reorganization of our trade agencies could be counted upon to bring greater emphasis on the rights and interests of consumers, a new structure would be welcomed. The proposal before the Senate, however, and for that matter the one before the House, promises nothing of the sort. Rather a Cabinet-level trade department—a Department of Trade and Industry—predictably will tilt our trade policy more toward protectionism and further away from the true interest of our people and our Nation.

This is a conclusion that follows inevitably when we consider the structure of the executive branch in relation to trade.

International trade policy is a matter of concern, legitimate concern, to almost all of our Cabinet departments. State, Treasury, Commerce, Agriculture, Labor, Defense, Justice, Interior, and Energy each can lay claim to an added interest and role. So can some non-Cabinet agencies. So, it might be added, would a consumers' agency if consumers were officially represented in our Government.

It is only to state a fact to say that each of the departments has a constituency or constituencies to which it is particularly linked. When trade policy issues arise, these constituencies and the genuine interests that they represent lead to separate and often clashing departmental positions. This is not unnatural or wrong or demonstrably wasteful. It is in the nature of our system. Arguably, it brings better outcomes than any practicable alternative.

The bill before the Senate essentially would strip certain functions from Commerce and add to a renamed department, the present U.S. Trade Representative's office. The basic constituency of this Department of Trade and Industry would be the nonagricultural business community. This is not a small sector of our economy and it is certainly one that has a concern for trade policy. But it does not, by any means, span all of the interests involved in our international trade. More than that, important groups in this one constituency have a powerful interest in obtaining or perpetuating restrictions on particular kinds of imports. To centralize trade authority in a DITI would be to strengthen the voices of precisely those groups most committed to protectionism.

These are not academic or hypothetical reflections. We see that many representatives of our agricultural sector with its heavy dependence on foreign markets are worried that a Cabinet trade agency will lean in a protectionist direction. It would be imprudent indeed for consumers not to share the unease that is felt by the farm spokesmen.

There is, of course, a trade policy coordination problem in our Government. In truth, there is a coordination problem in all democratic governments. We should not be deluded into believing that other countries manage their trade policies better than we do. They also struggle with differing interests. Mostly, they do so less successfuly than does the United States where the Presidency serves more than in parliamentary systems as a point for resolving problems in a more or less clear way.

It seems to us that the coordination responsibility logically and in strictly practical terms should stay where it is, in the executive office. The White House is the one part of the executive branch that can be said to have a national constituency. It is the place where interagency differences have to be settled if they are of any real consequence. A Department of Trade and Industry will lower the relative status of other departments in favor of the erstwhile Commerce Department. It will not put an end to policy disputes. It will not transfer ultimate responsibility from the White House, where a staff remarkably like that of the USTR will, in short order, have to be recreated.

In brief, the proposed DITI is founded on the mistaken view that our trade problems are primarily, or even importantly, ones deriving from organizational arrangements. They are not. And the DITI remedy, if we wish to have a sensible trade policy, is more mistaken than the diagnosis.

It is for these reasons that Consumers for World Trade opposes the trade reorganization proposal under this subcommittee's consideration and urges you to withhold your support for S. 121.

Senator DANFORTH. Thank you. I think you have made a very good point. Right now the way the system is supposed to work is with a multiplicity of interests on trade policy, and we do have a multiplicity of agencies and departments in the Government that are concerned one way or another. With or without a Department of Trade we are going to have a multiplicity of interests and a multiplicity of departments. We are going to have the Department of Agriculture, the Labor Department, the Treasury Department, the

International Trade Commission, and so on, with or without a new Department of Trade.

The theory of the USTR is that we should have something coordinating this, something making decisions. We should have a brain coordinating the various limbs of the body. And I don't think that we are going to have a more coordinated effort if we lop off the brains, lop off the head; namely, the USTR, and say, well, we have streamlined it because we have one less agency; we put it in with the Commerce Department. So now all we will have is Commerce, Treasury, ITC, USDA, Justice Department, Labor Department, so on and so forth. I think that's the point that at least a couple of you have made.

Senator Roth.

Senator ROTH. I don't have any questions. I would just like to point out we are not lopping off the head. As a matter of fact, we are creating a new department in which the USTR will be in the office of the Secretary. What we are trying to do is to strengthen the organization and the back-up from the facts and figures that the chief advocate for trade will have.

I find it to be inadequate at the current time. I agree with you as to the importance of a consumer and the retailer as well. And it may be that there are some things that we could do within the organization that would strengthen their voice because I think that's important. But I would like to point out that the legislation is to promote trade and exports. I think that's where the real future lies. We need a stronger voice for trade in order to bargain with greater strength.

But I would welcome any suggestions of ways that we might be able to assure that there is a more effective voice for both the consumer and retailer. I would point out, though, that the role of the White House remains the same in the sense that we strengthen the interagency council, which would be headed by the President. There still will be that independent voice in the White House to broker policy conflicts and on these major issues determine what the national policy should be. So we have not done away with that. But I would welcome your suggestions as to how we might strengthen your interest in this legislation.

I thank you for coming.

Senator DANFORTH. Senator Long.

Senator LONG. No questions.

Senator DANFORTH. Senator Bentsen.

Senator BENTSEN. I'm appreciative of the testimony.

Senator DANFORTH. Thank you all very much.

The next panel is Mr. McKevitt, Mr. Turner, and Mr. Hansen-Sturm.

Mr. McKevitt.

## STATEMENT OF JAMES D. McKEVITT, COUNSEL, NATIONAL FEDERATION OF INDEPENDENT BUSINESS, WASHINGTON, D.C.

Mr. MCKEVITT. On behalf of the National Federation of Independent Business, I would like to read a brief extract of our testimony.

NFIB supports the concept of a reorganized Department of Trade because the evidence shows that the current effort aimed at promoting small business exports is inadequate and, for the most part, ineffective. And it is our belief that a reorganized Department of Trade with an office having centralized responsibility and authority for assisting exports for small business is necessary, and to that extent we have lent our support to Senator Roth and the other proponents of a reorganized trade department.

NFIB strongly believes that the newly developed trade agency should consolidate small business export promotion efforts by designating a deputy or assistant secretary's office. in charge of small business exports and trade assistance.

NFIB is concerned that the trade remedies provided to protect against unfair import practice in current law are not helpful to small business, and we will make specific recommendations in that area. However, we are concerned that as currently formulated, the emphasis of the office of small business is too heavily weighted towards prevention of unfair competition from imports and inadequate in presenting solutions for export promotion.

The 1983 study issued by the General Accounting Office examined efforts to promote exports by small, nonexporting manufacturers, in addition to which we are going to do another survey here starting next month. The study revealed that in 1980 less than 1 percent of 3,433 firms participating in commerce trade missions and fairs were small manufacturers who had never before exported. While the Department of Commerce estimates that approximately 11,000 manufacturers are capable of exporting, indications are that small business owners are reluctant to export because of little or no knowledge of the export market or process, indifference toward exporting, or preoccupation with the domestic market. Many small business manufacturers consider exporting as being very risky. This concern is borne out by several members who have exported in the past, but have encountered substantial difficulties in obtaining payment.

In response to several of the comments made by the GAO, the Department of Commerce began a program in 1982 to target small, nonexporting firms. The study reveals that many small business manufacturers and nonmanufacturers could be induced to export if assistance were provided them in identifying markets and in arranging the necessary details.

The study states in very succinct terms why small businessmen are reluctant to export. First, there is clear evidence that many small businessmen have little or no knowledge of either the export market or the export process. Second, small firm managers are preoccupied with the large domestic market and do not feel the need to export to make profits. They lack strong motivation to export. Lastly, some small manufacturers refrain from getting involved in exporting because it is perceived as being too risky, too complex, or beyond their capabilities.

Inclusion of an assistant secretary for small business within the newly reorganized trade department would ensure that the duties and responsibilities of the new DITI would be implemented to have the widest impact on the economy. The position would greatly enhance the ability of this new agency to satisfy its legal requirements under the Act to seek and promote new opportunities for American products to compete in the world marketplace and to assist small businesses in developing export markets.

Senator DANFORTH. Thank you, sir.

[The prepared statement of James D. "Mike" McKevitt follows:]

National Federation of Independent Business

The Guardian of Small Business

STATEMENT OF

JAMES D. "MIKE" MCKEVITT
WASHINGTON COUNSEL

NATIONAL FEDERATION OF INDEPENDENT BUSINESS

Before: Subcommittee on International Trade of the Senate Finance Committee

Subject: Trade Reorganization

Date: February 27, 1984

My name is James D. "Mike" McKevitt, Washington Counsel for the National Federation of Independent Business (NFIB). On behalf of the 560,000 members of NFIB, I appreciate the opportunity to comment on the proposals to reorganize the international trade functions of the executive branch.

S. 121, the Trade Reorganization Act of 1983, outlines a very ambitious proposal which attempts to consolidate and coordinate the foreign trade functions of several agencies into one agency. It is the intent of S. 121 that this one agency will coordinate the activities of all trade functions and allow the United States to speak with one voice on trade issues.

NFIB supports the concept of a reorganized Department of Trade because the evidence shows that the current effort aimed at promoting small business exports is inadequate and, for the most part, ineffective. It is our belief that a reorganized Department of Trade with an office having centralized responsibility and authority for assisting exports for small business is necessary, and to that extent we have lent our support to Senator Roth and the other proponents of a reorganized Trade Department.

NFIB strongly believes that the newly developed trade agency should consolidate small business export promotion efforts by designating a deputy or assistant secretary's office in charge of small business exports and trade assistance. Such office should be empowered with the authority to act as an advocate on behalf of small business export efforts, with the authority to intervene and act on behalf of small business.

While S. 121 clearly assigns to the new secretary of the DITI the function of assisting small business in developing export markets, the duties of the Director of Small Business Trade Assistance as described in S. 121 focus on assistance in utilizing trade remedies against unfair trade practices and not on export promotion. NFIB is concerned that the trade remedies provided to protect against unfair import practice in current law are not helpful to small business, and we will make specific recommendations in that area. However, we are concerned that as currently formulated, the emphasis of the office of small business is too heavily weighted towards trade assistance, and inadequate in presenting solutions for export promotion.

<u>Current Attempts at Small Business Export Assistance</u>

NFIB supports the concept of a reorganized trade agency to fill the need for a coordinated national approach to promoting exports for small business. A 1983 study issued by the General Accounting Office (GAO) examined efforts to promote exports by small, nonexporting manufacturers. The study revealed that, in 1980, less than 1 percent of 3,433 firms participating in commerce trade missions and fairs were small manufacturers who had never before exported. While the Department of Commerce estimates that approximately 11,000 manufacturers are capable of exporting, indications are that small business owners are reluctant to export because of little or no knowledge of the export market or process, indifference toward exporting, or preoccupation with the domestic market. Many small business manufacturers consider exporting as being very risky; this concern is borne out by several members who have exported in the past, but have encountered substantial difficulties in obtaining payment.

In response to several of the comments made by the GAO, the Department of Commerce began a program in 1982 to target small, nonexporting firms. The study reveals that many small business manufacturers and nonmanufacturers could be induced to export if assistance were provided them in identifying markets and in arranging the necessary details.

The study states in very succinct terms why small businessmen are reluctant to export. First, there is clear evidence that many small businessmen have little or no knowledge of either the export market or the export process. Second, small firm managers are preoccupied with the large domestic market and do not feel the need to export to make profits; they lack strong motivation to export. Lastly, some small manufacturers refrain from getting involved in exporting because it is perceived as being too risky, too complex, or beyond their capabilities.

Another study recently completed by the President's Private Sector Survey on Cost Control also looked at the level of support the Department of Commerce was providing small exporters through the ITA. The analysis demonstrated a very skewed distribution of exports by order size. One hundred sixty orders greater than $1 million (or 2.9 percent of all orders) totalled over $1.235 billion, or 80 percent of the total value of U.S. exports. Four thousand five hundred thirty one orders smaller than $100,000 (or 8.1. percent of all orders) totalled $77 million, or 4.9 percent of total export value.

The ITA reviewed these data and decided that the agency was expending too much effort on a sector of the market that was exporting far too little in new exports. In July 1982, the ITA stated, "we have no choice but to curtail the resources expended on marginal firms and direct our efforts to those companies who meet the following criteria:

1) high export demand potential,
2) high technology,
3) strong R&D programs,
4) high value added lines,
5) strong capital structure or above average capital access,
6) high domestic market shares,
7) capability for sustained export market performance."

Very few of the descriptions given above sound like a typical small business.

Access to Trade Remedies by Small Business

In 1982, many small business owners found themselves facing an array of foreign competitors who could knock their socks off when it came to price on essentially equivalent products. The price differences were fueled as a result of more than just labor cost differentials; other contributing factors were an exceptionally strong dollar, export subsidies provided by foreign governments, and a system of duty preferences for "underdeveloped countries" listed under the Generalized System of Preferences (GSP), in which over 140 countries participate and are allowed to import more than 3,000 articles on a duty-free basis.

If a small business feels it is being injured by imports, it can request an investigation by the ITC to determine if trade rules are being violated. To obtain relief, it must attempt to demonstrate to the International Trade Administration (ITA) and the International Trade Commission (ITC) that subsidized imports are posing a threat to a domestic industry. An investigation would be initiated after receipt by the Department of Commerce of a petition submitted by a qualified interested party. The following is an outline of the petition requirements:

a. general information on the petitioner, such as:

   1. the name and address of the petitioner;

   2. the industry on whose behalf the petition is submitted--including the names of other enterprises included in the industry; and

   3. a statement indicating whether the petitioner has initiated proceedings pursuant to other relevant U.S. trade laws (such as section 301).

b. information on the subsidy alleged in the petition, which should include:

   1. a detailed description of the imported produce alleged to be benefitting from the payment of a foreign subsidy--including its tariff classification under the Tariff Schedules of the United States;

   2. the name of the country or countries from which the merchandise is being or is likely to be exported to the United States (or the name of the country in which it is produced, if it is produced in a country other than the country from which it is being exported to the United States);

   3. the names and addresses of the companies in foreign countries that are believed to be benefitting from the subsidy and are exporting the merchandise to the United States; and,

   4. all pertinent facts about the alleged subsidy, including, if known, the statutory authority or other authority under which it is provided, the manner in which it is provided, the manner in which it is paid, and the value of the subsidy when it is received and used by producers or sellers of the merchandise.

c. injury-related information, such as:

   1. information on individual sales (including customers) and prices thereof on sales to the United States during the period to be investigated;

2. the volume and value of imports of the merchandise from the country in question during the most recent 2-year period;
3. the names and addresses of enterprises believed to be importing the merchandise into the United States;
4. the names and addresses of other enterprises in the United States engaged in the production, manufacture, or sale of like merchandise;
5. information relative to a consideration of whether subsidized imports are the cause of injury to a U.S. industry; and,
6. information necessary to substantiate a claim that "critical circumstances" exist in a case.

Attached is a copy of a questionnaire which must be furnished to both the ITA and the ITC for them to consider a case of dumping (Appendix A). In addition to the burdensome paperwork required, the entire investigative procedure can take up to 10 months to conclude, whether the case is brought to Commerce or to the United States Trade Representative (USTR) as a section 301 case.

The following is a list of comments on problems brought to our attention by NFIB members, including the states where they reside:

"Imported sailboats built in Taiwan, Canada and France. Canada taxes our boats on import, but Canadian boats enter our market tax free."

"Tawian boats come in tax free. French boats provide twice the discount of domestic manufacturers to dealers because of government subsidies." (Florida)

"Audio cassettes from Hong Kong are imported at 15 to 20 cents per unit, cheaper than U.S. companies can produce them." (California)

"The flower industry is being decimated by competition from countries with GSP status." (New Hampshire)

A manufacturer of jogging trampolines wishes to import parts and is told he will have to pay duties on the imported parts. However, trampoline manufacturers in Korea and Taiwan are allowed to import trampolines duty free. (Utah)

Packaged flour tortillas producers from Mexico are allowed to undercut prices of domestic producers because of their GSP status. (Texas)

75% of all fasteners come from overseas. In a national emergency we would be left with a 90-day supply. (Texas)

Establishment of an Assistant Secretary for Small Business Export Promotion and Trade Assistance within the Department of International Trade and Industry (DITI).

In the past, efforts to increase the level of involvement of small business in exporting has lacked coordination between the different agencies and an understanding of small business needs. The Department of Commerce, through its International Trade Administration (ITA), has made valiant efforts in attempting to increase small business exporting, but has failed to achieve any significant success.

An Assistant Secretary for Small Business Export Promotion and Trade Assistance could accomplish several needed objectives in attempting to reach the goal of increased exports by small business:

provide a one stop shop, where the owner of a small business who wishes to export can go to one office and receive all necessary information on exporting;

remove the vast maze of bureaucratic fiefdoms which seek to exercise control over each export transaction, often resulting in a disillusioned business owner and a lost sale;

provide the necessary assistance to a small business to arrange proper export financing, and educate the business owner in the necessary steps to take to protect himself and his sale;

assist small business owners in defending themselves against unfair trade practices by foreign companies and governments by assisting the small business in assembling the required documentation to prove that an unfair trade practice has occurred;

coordinate efforts of the EX-IM Bank and provide assurance that the level of export financing assistance allocated to small business is properly utilized; and

monitor the efforts of all the divisions within the DITI and the other departments which are a part of the Interagency Policy Committee to determine that trade policies which are adopted and legislation which is proposed has been reviewed for its affect on small business (e.g. tax legislation, such as the revision of the Domestic International Sales Corporation).

Inclusion of an Assistant Secretary for Small Business within the newly reorganized trade department would insure that the duties and responsibilities of the new DITI would be implemented to have the widest possible impact on the economy. The position would greatly enhance the ability of this new agency to satisfy its legal requirements under the act to seek and promote new opportunities for American products to compete in the world marketplace and to assist small businesses in developing export markets.

Of further assistance to small business in a centralized office of small business export promotion and trade assistance would be the concept of an advocate for small business. This concept was proposed in S. 1672, the Unfair Trade Remedies Simplification Act, introduced by Senators Mitchell and Chaffee.

We find the idea of a small business advocate very intriguing from several perspectives. Under current Department of Commerce rules, there is no one individual empowered to act on behalf of small business. While the ITC, ITA, and USTR are all empowered to act on behalf of the taxpayers if an industry is being injured, typically it is the industry which must take the initiative. As conceptualized, an Advocate will be authorized to assist small business in the preparation for and participation in any proceeding relating to trade laws, and will, on his own, initiate investigations in which, in the advocate's opinion, small business interests are at stake. Not only would the advocate's office provide assistance to small business in filling out forms, a function currently provided by Commerce and the ITC, the advocate could also participate in arguing the case of the small business before the ITC.

This assistance and oversight regarding small business concerns in matters of foreign trade would prove invaluable not just to small business, but to Commerce and government officials. For the first time they would have a representative with first hand knowledge of the small business impact in injury determinations.

It is the opinion of NFIB that a Small Business Advocate for International Trade within the new DITI would be of great assistance and may be the link which advocates of small business exporting have been searching for.

In addition to intervening in trade remedy cases, it would be the function of the advocate to engage in outreach efforts by establishing a clearinghouse for trade remedies and information to help small businesses export. The advocate would be empowered to bring together all the required ingredients necessary to facilitate small business exporting. The advocate would:

1) provide to small businesses information on those countries which might be interested in their products and provide all the necessary information to a small business on the export process. Necessary counseling and advice to insure export sales would also be provided.

2) establish a clearinghouse of information on potential markets to small businesses.

3) work with a small business to insure that the perceived risk factor in exporting is minimized to the greatest extent possible.

NFIB believes that increasing the level of participation by small business in exporting will require more than just a vague statement of principle. A small business advocate for international trade developed along the lines suggested would provide concrete assistance. The advocate's office would be the leader in protecting small business by helping to ensure that foreign competition is not unfair in its impact on the small business segment of the economy.

Proposals to Resolve Small Business Problems With Trade Remedies

The following proposals for alleviating small business problems with access to trade remedies should be enacted and under the duties and responsibilities of a small business advocate for exports. These proposals were also included in S. 1672 which was introduced by Senator Mitchell.

A. Expedited Duty Procedures

A streamlined trade relief procedure should be provided to make relief procedures more accessible to small business. Conceptually, a petitioner could elect a fast track procedure in antidumping cases. This procedure would provide that Commerce make a decision on cases 75 days earlier by removing the need for a preliminary determination of damages. Under current procedures final determination in an injury case can take 10 months or more. This rule change is needed because very often a small business cannot survive long enough to wait for a determination.

B. Change in Basis for Preliminary Determination

A simplified procedure which could be used by the ITC in basing preliminary injury determinations would be of great assistance. Under current procedures, the ITC has a very narrow and specific method of determining injury. In making its decisions, the ITC examines the impact of subsidized imports on the affected industry and requires an examination and evaluation -- "based upon the best information available to [the ITC] at the time of the determination" -- of all relevant economic factors and statistical indices which have a bearing on the state of the industry. This standard has been interpreted by the ITC as requiring exhaustive examination of all statistical evidence available on the industry. This proposal alters the tone of the statute by basing preliminary determinations upon "information available" at the time of the determination. This would allow for the inclusion of information from generally available public sources.

Both the proposal providing for a fast track procedure and the proposal for simplification of preliminary determination of injury would establish a new tone in Commerce dealings with small business. The recommended revised procedures would provide a type of regulatory flexibility by recognizing special small business problems in these type of cases.

C. Other Concerns -- Definition of Injury

To further advance a new tone in small business dealings with the ITC, the following concern needs to be raised. Special consideration needs to be given to changing the definition of injury under current ITC rules. Currently, a countervailing duty may only be imposed when it has been determined that a subsidized import threatens material injury to a domestic industry. For purposes of determining injury, "domestic industry" is defined as all domestic producers of the like products. Under certain exceptions, the ITC may consider the damages on a regional basis.

Concern over damages to an industry by considering the size of the firm is not allowed under these rules. For small business, this approach to injury could make a substantial difference. Due to size and other economies of scale, large manufacturers within an industry might well be able to survive dumping problems which a small business could not withstand. However, under the ITC definition, injury has not occurred, thereby precluding any trade remedies. The determination of injury is made on an industry level, which is concerned with the overall volume and price effects on an industry. The Department of Commerce publication states, "It is important to note that the entire industry must be found to be injured or threatened with injury." A new approach by the ITA and the ITC is needed which would determine injury on the basis of comparative size within an industry. This change would promote strongly the interests of small business owners who are so vulnerable to unfair foreign competition.

Conclusions

NFIB reiterates its basic support for the reorganization of the trade agencies into one agency with the goal of assisting in the promotion of small business exports and trade assistance, a function which the existing trade agencies have fallen short of providing. We would encourage this committee not to allow the trade reorganization plan to become a springboard for trade protection advocates nor for government industrial policies which would encourage government intervention in business decisions.

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APPENDIX

INTERNATIONAL TRADE ADMINISTRATION
DEPARTMENT OF COMMERCE
FORMAT FOR PETITION REQUESTING RELIEF
UNDER U.S. COUNTERVAILING DUTY LAW

The attached Format for Petition has been prepared in order to simplify the procedure for persons seeking to file a petition for relief under Title VII, Subtitle A, Tariff Act of 1930, as amended (19 U.S.C. 1671 ("the Act")). The petition should contain, or be accompanied by, information set out below, to the extent it is reasonably available to you. Upon the receipt of the necessary information, either in the accompanying format or structured in any other form you deem appropriate, the International Trade Administration (ITA) will generally be able to consider the initiation of a countervailing duty proceeding. Such proceeding is administrative in nature and can result in the imposition of special countervailing duties on specific imports. Imports of foreign merchandise are liable for special countervailing duties only after:

- a determination is made by the Assistant Secretary of Commerce for Trade Administration, or his delegate, that a subsidy is being provided with respect to the production and/or export of the merchandise subject to the investigation, and

- a determination is made by the United States International Trade Commission (USITC) that an industry in the United States is being materially injured or threatened with material injury, or that establishment of an industry in the United States is being materially retarded, by reason of imports of such merchandise. Please note that no injury investigation by the ITC is required with respect to subsidized imports from non-signatory countries, with exception of certain duty-free merchandise*.

* "Non-signatory countries" refers to countries that are not parties to the "Agreement on Interpretation and Application of Articles VI, XVI, and XXIII of the General Agreement on Tariffs and Trade (Relating to Subsidies and Countervailing Measures)" - 19 CFR 355.7 (j). Non-signatory countries get an injury test on duty free merchandise if such a test is required by the international obligations of the United States. (Any questions in this regard should be directed to the Director, Office of Investigations)

Before completing the attached Format for Petition, applicants should consult the Act and pertinent DOC regulations (19 CFR Part 355), USITC regulations (19 CFR Part 207), and, if necessary, discuss particular problems with an official of the ITA or the USITC at the addresses and telephone numbers noted on page 3.

While this Format for Petition is intended to elicit the basic information required by DOC and USITC regulations, under the law a petitioner may file a petition in any form suitable for presenting the data required. Where available, documentation supporting the information provided should be included. Furthermore, those completing and submitting a countervailing duty petition should clearly indicate if information requested by the regulations or this questionnaire is unavailable and the reasons for such unavailability.

Information for which proprietary (confidential) treatment is requested must clearly be marked as such on the pertinent pages with "Proprietary Information Requested". A summary, or approximated presentation, of the proprietary information should also be submitted, together with a statement of the basis for the proprietary treatment and, if necessary, why a summary or approximation cannot be prepared. A summary of figures regarded as proprietary should be provided, expressed in a range of not more than 10 percent above or below the actual figures. An information sheet concerning proprietary information and administrative protective order release of proprietary information is attached.

Any information submitted in this questionnaire or in support thereof, which is in a foreign language, must be accompanied by an English translation, unless Commerce waives this requirement, following a request by the petitioner.

Completed Format for Petitioner and covering letters should be furnished, to the extent feasible, in at least 10 copies, and should be addressed to:

Assistant Secretary for Trade Administration
U.S. Department of Commerce
Room 2800
Washington, D.C. 20230

ATTN: Deputy Assistant Secretary for Import Administration

For: Director, Office of Investigations
(202) 377-5403

If an injury determination is required, the completed questionnaire should be filed simultaneously with the USITC at the following address:

Secretary
United States International Trade Commission
701 E Street, N.W.
Washington, D.C. 20436
(202) 523-0280

If you have any enquires about the Format For Petitioners, please contact the Director, Office of Investigations at the address and telephone number above.

Senator DANFORTH. Mr. Schmitz.

STATEMENT OF HERBERT K. SCHMITZ, VICE PRESIDENT, GOVERNMENT AFFAIRS, COMBUSTION ENGINEERING INC., WASHINGTON, D.C., ON BEHALF OF LABOR-INDUSTRY COALITION FOR INTERNATIONAL TRADE

Mr. SCHMITZ. Mr. Chairman, and other members of the subcommittee, my name is Herbert Schmitz. I am vice president of Government Affairs for Combustion Engineering. I come to this question after having spent 20 years in the private sector, 1 year in the Department of Commerce, and 4 years in two administrations at a special trade representative's office.

With me is Brian Turner, director of legislation and economic policy for the Industrial Union Department of the AFL–CIO.

We are here on behalf of LICIT, the Labor-Industry Coalition for International Trade.

LICIT believes that a reorganization of our Government's trade policy structure and function should be accomplished as part of a total process of understanding and responding to the enhanced role of trade in the American economy. A fundamental part of this process should be the reform of current U.S. trade laws, including their expanded coverage to address new problems of foreign government supported and directed international competition.

We encourage this committee to undertake such reforms, and we would be happy to share LICIT's views on trade law reform with the subcommittee membership.

Trade reorganization and trade law reform should be complimentary actions to respond to the new realities of international trade. Trade reorganization cannot be viewed as a substitute for trade law reform. Both are required. It is in this context that Mr. Turner will briefly outline LICIT's views on the question of trade reorganization.

[The prepared statement of Mr. Herbert K. Schmitz and Mr. Brian Turner follows:]

Statement of

Herbert K. Schmitz
Vice President, Government Affairs
Combustion Engineering, Inc.

and

Brian Turner
Director of Legislation and Economic Policy
Industrial Union Department, AFL-CIO

On Behalf of

The Labor-Industry Coalition for International Trade

Before the

Subcommittee on International Trade
Committee on Finance
United States Senate

Hearing on Trade Reorganization Plans

February 27, 1984

Mr. Chairman,

We represent the Labor-Industry Coalition for International Trade (LICIT). LICIT is a coalition of corporations and industrial unions representing a wide spectrum of American industry and is not an official arm of any labor or business group. LICIT's charter states that the coalition "seeks to represent the common interest of American workers and American business in promoting increased, balanced, and equitable trade among all nations of the world." A membership list is attached to this testimony.

The Labor-Industry Coalition for International Trade, in its study, International Trade, Industrial Policies and the Future of American Industry, argued strongly for the need to establish a better capability to both understand the changing international competitive situation of American industry and to formulate and implement an effective response. A stronger voice is needed in the Administration to focus on the international economic aspects of securing the continual development of American industry and employment. We have a number of concerns that we feel should be addressed as part of any reorganization of trade functions. These concerns include the following:

-- a more active and effective participation by private sector advisors;

-- a sectoral research and information gathering capability;

-- greater authority for the chief trade policy official;

-- a strong career service for developing trade personnel;

-- a single, cabinet-level committee for interagency coordination;

-- a more effective institutional relationship between Congress and the trade functions of the executive branch.

LICIT believes that a reorganization of our Government's trade policy structure and functions should be accomplished as part of a total process of understanding and responding to the enhanced role of trade in the U.S. economy. A fundamental part of this process should be the reform of current U.S. trade laws and their expanded coverage to address new problems of foreign government supported and directed international competition. We encourage this subcommittee to undertake such reforms. Trade reorganization cannot be viewed as a substitute for trade law reform. Both are required. In this context, Mr. Chairman, we offer these views on the question of trade reorganization.

## Redefining the Role of Trade in the U.S. Economy

Before presenting LICIT's objectives for trade reorganization, we would like to briefly summarize why we believe that reorganization of our trade policy apparatus and the reform of our trade laws must be accomplished together.

It has been estimated that 70 percent of U.S. industrial production is now subject to international competition. In 1960, the United States exported about 8 percent of its manufactured output. By 1980, this ratio had risen to 25 percent. Manufactured imports as a percent of manufacturing production have also increased substantially, growing from under 5 percent in 1960 to over 21 percent by 1980. It is not only the relative magnitude of this interdependence of our ecomony and those of others, but the rapidity of its increase in the last two decades that has dramatically demonstrated the fact that U.S. producers and workers compete in a world market. And, it is a world market shaped by the policies of many governments, not just an isolated domestic market shaped only by American policies.

Thus, trade and international economic competition are much more important for the United States today than even 10 years ago. The problems, challenges and opportunities presented for the American economy call for a more coherent and effective trade policy structure than presently exists in order to ensure that trade promotes the strengthening of U.S. industries and the growth of U.S. employment.

## Background on Trade Reorganization

One of the primary objectives of Reorganization Plan No. 3 of 1979, put into effect by President Carter, was to ensure strong enforcement of the recently approved MTN codes. It did this by trying to make a clear division between policy formulation and negotiations on the one hand, and the operational responsibilities of implementing trade laws and policies on the other. The responsibility for policy coordination and negotiation was placed in an upgraded Office of the United States Trade Representative. The operation and implementation responsibilities (which are staff-intensive) were placed in the Department of Commerce. As part of this reorganization, the administration of the countervailing duty and antidumping laws were taken out of the Treasury Department and placed in the Commerce Department.

At the time, Reorganization Plan No. 3 was seen as a middle-ground position between no reorganization and a major reorganization requiring legislation. The three years since that plan took effect, however, have convinced many that major problems still remain in our trade policy structure.

The trade reorganization proposal being considered by this subcommittee, S. 121, can be seen as a continuation of the efforts toward consolidation and centralization of trade policy functions that began with Reorganization Plan No. 3. The concept behind Reorganization Plan No. 3, however, has proved to have a number of inherent problems in actual practice.

The basic premise behind the Carter reorganization plan was to create a strong voice for trade policy and negotiation in the White House through the Office of the U.S. Trade Representative and, at the same time, improve the implementation of trade laws and policies by isolating those functions from policy formation and negotiation. Thus, the Commerce Department was given responsibility for export promotion functions, export administration and administration of the unfair trade practice laws (except for section 301, which remained in USTR, a symbol of the difficulty of separating policy formation with policy implementation). The fundamental problem with this arrangement, as it has worked in practice these last three years, is that in the real world, as opposed to on an organizational chart, policy coordination and trade negotiations cannot be strictly separated from operational functions of administering trade laws and policies. For example, it was the Commerce Department (not USTR) that negotiated a steel agreement with the EEC because of the power it derived from its responsibility for administering the countervailing duty and antidumping laws.

Objectively, there is a need for reorganization of the U.S. trade bureaucracy. Clearly, the further consolidation and centralization of the trade functions of the Government can be a positive step in improving the formulation and implementation of U.S. trade policy objectives. The Labor-Industry Coalition for International Trade believes that reorganization efforts should include the following components.

1. An Active and Effective Participation by Private Sector Advisors

A fundamental requirement of any reorganization is an active and effective participation by private sector advisors. The current advisory system, coordinated by the USTR, has been useful but needs to be substantially improved. First of all the complete separation of business and labor in the advisory process should end. A system should be established where business and labor advisors, at the initiative or agreement of the respective committee chairpersons, can meet together on a sectoral basis, as well as generally through a top-level, overall committee, to discuss and share information on both analytical and policy issues.

Secondly, the advisory system should provide for input into section 201 and 301 deliberations from companies or unions with experience in the relevant industry.

Finally, the advisory system should not only be integrated into the policy formation process but also into the evaluation of analytical work on U.S. and foreign industrial competitiveness and the effect of foreign government trade and industrial policies.

2. Sectoral Research and Information Gathering Capability

A reorganization of trade functions should also establish a sectoral research and information gathering capability to assess and evaluate industrial developments in the United States and other countries, the industrial and trade policies of other countries and their effect on U.S. industries, trade and employment.

Our Government must acquire the expertise to assess the impact on American industries of the policies and measures that it and other governments employ before major damage occurs to domestic firms, workers and communities. Too often our current trade policy apparatus only becomes involved with an industry after U.S. producers have been adversely affected. Waiting to respond to such a situation limits the options that can be taken. A preventive and anticipatory approach to potential trade disputes is called for. What is required is an approach which consists less of after-the-fact, reactive responses and more of a forward-looking understanding of the operation of the world economy in order to help promote the international competitiveness of American industries.

A major problem with the current conduct of our trade policy is the lack of timely information on the industrial economic developments and industrial and trade policies of our major trading partners, including the absence in our Government of any systematic capability for evaluating implications of such information for domestic industries and U.S. trade policy. The development and maintenance of the capability described above will be a vital part of ensuring that any reorganized agency will be able to act promptly and effectively.

Section 215 of S. 121, which establishes an Office of Competitive Analysis, meets substantially the concerns LICIT has in this area, and we highly recommend that any reorganization of trade functions include the provisions set out in this section. We also recognize that the Department of Commerce has already taken a number of steps to internally reorganize itself to begin to deal with these concerns. These steps include bringing into the International Trade Administration divisions with expertise in domestic industries. Also, nine industry sector units have been created within this new structure. We believe these steps can be positive ones in beginning to meet some of the analytical requirements outlined above.

3. Greater Authority for the Chief Trade Policy Official

Concern has been raised that the chief U.S. trade policy official does not have the influence or bureaucratic clout to effectively represent trade policy issues in cabinet deliberations. Therefore, it is essential that the cabinet officer responsible for trade policy also be given the authority for making trade policy decisions. This chief trade policy official should be given sufficient authority and power in trade matters so that the cabinet position has the appropriate influence and stature in the Administration. This can be accomplished by providing the new Secretary with the current powers of the Secretary of Commerce as well as authority to make the final determination in Section 201 and Section 301 cases (subject to appeal to the President).

4. A Strong Career Service for Developing Trade Personnel

If a new trade agency is to be effective, it will have to be staffed by highly capable, experienced people. An essential component of a new cabinet agency should be a professional career service. Too often, unfortunately, actions have been taken which discourage competent people from entering Government service and demoralize those who remain. Civil servants in general have been characterized unfairly as being ineffective and overpaid. A new Administration can bring in corps of political appointees who are given positions which in any other government would be filled by experienced career officials. If no special provision is made, any reorganized bureaucracy would be staffed by political appointees at almost all senior and middle management levels. These people are virtually precluded from having directly related experience because of conflict of interest rules. A continual turnover in all the policy level positions will bring a lack of continuity and organizational purpose. This sytem will mean that U.S. trade negotiators increasingly will not have the background or experience that is required to effectively represent U.S. interests.

Almost all other major trading partners the United States negotiates with have government officials who spend their entire careers learning their profession. Within the Japanese Government, international trade negotiations are conducted by senior officials of the Ministry of Foreign Affairs or Ministry of International Trade and Industry with up to 25-30 years of experience. These people are the product of a selection process which begins by picking the finest university graduates and then promoting only the best of these individuals based on actual performance over time. This kind of approach typifies the European community as well as Canada, Korea, Mexico and Taiwan. It is also the case with most senior officials of international organizations such as the GATT and OECD.

If a new cabinet agency is going to be effective in international negotiations and trade policy development, it must be staffed by a corps of highly qualified and experienced personnel, who take a long run view of U.S. negotiating objectives. This can best be accomplished by a professional career service that would enlist the best university graduates, provide adequate compensation and ensure that these people are promoted to senior positions with negotiating responsibility. The career service could extend up to the Deputy Assistant Secretary level.

Section 241(e) of S. 121 provides for a report containing recommendations for "the establishment of a trade personnel system." LICIT believes that legislation reorganizing trade functions should contain provisions for a career service, instead of waiting for consideration of studies on the subject that postpone any action on the issue for years.

5. <u>A Single Cabinet-Level, Interagency Committee</u>

The discussion and review of international economic policy (not only trade policy, but exchange rate policy, international financial issues and other economic matters affecting trade) on an interagency basis should be performed at the cabinet level. This should be carried out by a single committee which should be supported and have issues coordinated by a small, independent staff in the White House. Having the interagency coordination performed in the White House will maintain the overall political and broad-based perspective on trade policy issues. A single committee will avoid duplication of effort and confusion that now exists with many interagency committees involved with trade policy formation. The establishment of a Council on International Trade, Economic, and Financial Policy in Section 266 of S. 121 meets the concerns of LICIT on this issue.

6. <u>A More Effective Institutional Relationship Between Congress and the New Agency</u>

There should be a strong institutional relationship between the executive branch agency and the Congress achieved through regular reporting requirements and frequent and timely consultations on important policy initiatives and decisions. This should be done not only to emphasize the important role of Congress in determining the trade policy of the United States,

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but also to ensure an effective working relationship between the Congress and the Executive Branch. Again, S. 121 provides for regular reporting and consultation requirements by the Administration's trade policy organization to the appropriate committees of Congress.

## Conclusion

Mr. Chairman, on behalf of LICIT, we hope the enumeration of these objectives for reorganization will be both useful and helpful to you in the consideration of legislative proposals on trade reorganization. Let us emphasize again the importance LICIT attaches to the relationship between trade reorganization and trade law reform. Both of these legislative programs are necessary and complementary parts of the process of redefining the role of trade, and therefore the importance of trade policy, to the American economy.

Thank you, Mr. Chairman.

1WAN30:1c

Bethlehem Steel

Amalgamated Clothing and Textile
Workers Union

Combustion Engineering, Inc.

Communications Workers of America

Corning Glass Works

International Union of Electrical,
Radio and Machine Workers

International Brotherhood of
Electrical Workers

American Flint Glass Workers Union

The BF Goodrich Company

Industrial Union Department, AFL-CIO

Ingersoll Rand Company

International Ladies' Garment
Workers Union

International Association of Machinists and
Aerospace Workers

United Paperworkers International Union

United Rubber Workers of America

St. Joe Minerals Corporation

United Steelworkers of America

W. R. Grace & Co.

Westinghouse Electric Corporation

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shington, D.C. 20036
2 452-7452

STATEMENT OF BRIAN TURNER, DIRECTOR OF LEGISLATION AND ECONOMIC POLICY, INDUSTRIAL UNION DEPARTMENT, AFL-CIO, WASHINGTON, D.C.

Mr. TURNER. Mr. Chairman, I would like to summarize briefly six basic provisions which LICIT believes should be included in any trade reorganization. And a number of these are already addressed in S. 121. A more complete discussion of these suggestions is contained in our written testimony.

No. 1, we believe—and this based to a certain degree on our experience in the Labor-Industry Coalition for International Trade—that there should be a much more active and effective participation by private sector advisors both in trade policy development and decision making. This should include the opportunity for joint meetings of business and labor advisers, something which now cannot take place, as well as input by relevant sector advisory committees in 201 and 301 cases.

No. 2, we believe that a very important part of any reorganization is the strengthening of the information gathering and analytic functions in the administration of trade and industrial matters. We need an ability to analyze and evaluate developments at home and abroad as they are occurring or as we can see them on the horizon rather than waiting until after some sector has suffered damage, perhaps irremedial harm as a result of then passed events, to which we have to react. Provisions in S. 121 providing for an office of competitive analysis go very far in this direction.

No. 3, and perhaps most important from the point of view of organization, we would like to see a greater focusing of authority in the hands of the Secretary of International Trade and Industry so that his ability or her ability to negotiate internationally and to represent the interests of industrial development and industrial competitiveness can be adequately and fully represented. So we would like to recommend that authority in final decisions in section 201 cases as well as section 301 cases that now rests with the President should be brought to the Secretary, of course, with appeal to the President as may be necessary.

We have three other recommendations. Let me mention them briefly.

No. 1, that there should be greater provision for a career service so that we can have full scaled professional expertise as all of our competitors do when it comes to international trade negotiations.

Second, we want to endorse the idea of a unified cabinet level interagency body to consider international trade finance and competitiveness issues. S. 121 in providing for a counsel on economic trade in economic and financial policies provides a very valuable suggestion in that regard.

Third, we very much endorse the idea of a strong working institutional relationship between Congress and the executive branch in the development and execution of trade policies.

Thank you. We would be happy to answer any questions.

Senator DANFORTH. Thank you, sir.

Mr. Hansen-Sturm.

**STATEMENT OF CORD D. HANSEN-STURM, MEMBER, GOVERNMENT AFFAIRS COMMITTEE, U.S. TOUR OPERATORS ASSOCIATION, NEW YORK, N.Y.**

Mr. HANSEN-STURM. Thank you, Mr. Chairman, members of the committee. My name is Cord Hansen-Sturm. I am representing the Government Affairs Committee of the U.S. Tour Operators Association.

Senator Danforth, I would like to respond to your question to the first panel: "Are all other countries of foreign trade regimes operated in a more coordinated way than our own?" Senator Roth, I will also respond to your and Bob Hormats' observation that the current U.S. trade system is not dealing effectively with the issues of the 1980's.

All witnesses have cited agricultural exports in some way as the trade sector in which we are the most successful. Agriculture is No. 1. Perhaps that is because the U.S. Government and the grain companies and other farm exporters market the Nation's agricultural products internationally hand in glove. Perhaps our agricultural trade sector is more competitive because the executive, the Congress, and the farm community have devised highly integrated policies, programs, and institutions.

The U.S. Government is an advocate of agricultural exports, not a dispassionate honest broker. Institutions count. The trade system works well for agriculture today. It does not work as well for travel and tourism.

The No. 2 and No. 3 U.S. exports are travel goods and travel and tourism services. They are the issues for the 1980's. A trade giant in its own right with better immediate prospects for expansion than any other U.S. industry, the human dimension in international travel places it on a plane above all other trade issues. The 50 million international travelers crisscrossing our borders each year who conduct the foreign trade and other foreign relations of our Nation are not inert goods or abstract services, but the practitioners of civilization.

But all is not well in the Nation's primary international information industry. For the last several years, America has lost international travel market shares. There has been an ebb tide of jobs, business, currency, and foreign influence.

The U.S. travel system is an integral part of a much larger global travel system in which the U.S. firms play a substantial role. The United States is radically changing its domestic travel system through deregulation, while the international system remains as highly controlled and operated by governments as before. The global system is not an open system for travel trade. However lean and efficient our U.S. private travel firms are becoming in domestic competition against each other, in the international arena they are still competing against nation states.

There is a rapidly widening regulatory systemic gap which can only be bridged by active foreign trade policy leadership, backed by trade program organizational muscle, and close cooperation between government and the private sector. The facts show that existing institutions, policies, and programs are inadequate.

The proposed Department of Trade and Industry, which would include the United States Travel and Tourism Administration as a principal trade organ, will merge existing organizations in a way in which the whole will exceed the sum of its already existant parts. It will strengthen the travel industry.

Senator DANFORTH. Thank you.

[The prepared statement of Cord D. Hansen-Sturm follows:]

United States Tour Operators Association
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STATEMENT IN SUPPORT OF LEGISLATION TO CREATE
A DEPARTMENT OF INTERNATIONAL TRADE AND INDUSTRY

BEFORE THE INTERNATIONAL TRADE SUBCOMMITTEE
SENATE COMMITTEE ON FINANCE
CHAIRMAN JOHN C. DANFORTH

PRESENTED BY: CORD D. HANSEN-STURM
GOVERNMENT AFFAIRS COMMITTEE
UNITED STATES TOUR OPERATORS ASSOCIATION

FEBRUARY 27, 1984

****

My name is Cord D. Hansen-Sturm. I am representing today the Government Affairs Committee of the United States Tour Operators Association, the leading wholesale trade organization in the travel industry.

In hearings before the Senate Foreign Relations Committee 30 years ago, travel trade expert Somerset Waters made a suggestion we would like to reiterate today:

> "In view of the importance of tourism as one of the leading factors in foreign trade, it would seem appropriate for Congress to ask the Executive Branch of our government why so little is being done to encourage tourism."

The author of that remark used the term "tourism" interchangeably with "travel", since they both refer to the flow of people across borders for temporary stays for economic, scientific, political, cultural, educational, journalistic, and recreational purposes.

Travel and tourism is the second leading factor in world trade and the third largest export from the United States. It is far and away the largest industry in the services sector of the U.S. and the world economy. Furthermore, the international travel system -- comprised of transportation, lodging, food service, entertainment, travel goods, wholesale and retail and personal services sectors -- provides a major part of the economic information infrastructure which sustains all other forms of international trade. Travel is a trade income and job producing giant in its own right but, more significantly, travel provides vital information input to other foreign trade sectors. Travel, along with telecommunications and print, is one of the three pillars of the American information society.

Although the worldwide travel and tourism industry is highly regulated, the United States has undertaken a policy of unilateral deregulation. This rapidly widening international regulation gap increasingly separates U.S. domestic travel trade from international travel trade. If American firms are to remain internationally competitive, a bridge must be provided by strong foreign trade policy leadership, backed by trade program organizational muscle, and close cooperation with the private sector.

Since 1982, the United States Trade Representative and the Department of Commerce have made great strides toward the development of cooperation among government agencies and between the government and private sectors. Unfortunately, in spite of this new spirit of cooperation, the United States has continued to lose international market share in the travel sector. We are not doing nearly enough to stem this ebb tide, this outflow of business and currency.

As the single most promising U.S. export sector and as the overseas information infrastructure on which all U.S. foreign trade and investment is dependent, the travel and tourism industry deserves and requires more trade policy attention than it has been getting. Given the extraordinary potential for travel development and the complex, regulated nature of the global travel system, it is naive to think, as some still do, that international travel requires less policy attention than other trade sectors. We urgently need an international travel trade strategy based on increased cooperation between the government and the private sector.

The human factor in international travel places it on a plane above all other trade issues. The 50 million Americans and foreigners who annually shuttle across our borders represent more than inert goods or abstract services; they are the living practitioners of civilization. The business of moving, housing, feeding, and otherwise sustaining these people who conduct the international affairs of America is of vital importance. Foreign travel has not only economic, but cultural, scientific, political, and national security dimensions. And the freedom to travel is a right guaranteed in the Constitution.

Most of the barriers to international travel are best approached as bilateral and multilateral trade problems. Barriers that cannot be reduced by negotiation can also be countered by more effective marketing of the USA as a travel destination. This is the rationale for including the United States Travel and Tourism Administration as a principal trade organ in the proposed Department of International Trade and Industry.

We believe that the new trade organization would merge the strengths of the United States Trade Representative and the Department of Commerce in a way in which the whole will exceed the sum of its already existant parts. It will facilitate a synthesis of foreign travel marketing and negotiating functions, eliminate some redundancy among agencies, and strengthen the coordination of policy.

Because there are so many competing national teams in the international travel policy arena, the U.S. team needs a strong captain.

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Senator DANFORTH. Mr. McKevitt, I think that your testimony contains a non sequitur——

Mr. MCKEVITT. OK.

Senator DANFORTH. I think that what you have said is that the Department of Commerce has not done a very effective job of promoting U.S. exports, therefore, we should fold the USTR in the Department of Commerce in order to improvc U.S. exports.

Mr. MCKEVITT. The problem that the Department of Commerce has had in the past is it has had too much of a diversified function, whether it's a business, census, you name it. Within Commerce over the years, whether it's the ITA shop or the other section over there, I don't think there has been much of a thrust.

But the other problem you have is that you have all these different departments focusing in on it. You have got the Small Business Administration who has got a trade shop. You've got Exim now as a requirement on trade. And the problem that small businesses have as they look at this new book that they have seen—Wiley & Sons book on Washington's best kept secrets—is where do they start? Maybe Commerce needs to improve, but what's Exim's role on this situation? Now I think they are a little bit confused on it.

I think if you had a central function within DIPI it might do a lot to resolve this by creating, for example, an assistant secretary's slot for export development for small business and also to have an advocate's role as well.

Senator DANFORTH. Well, we are going to continue to have the Treasury Department and the Eximbank and so on. It just seems to me that you put too much stock in moving the big boxes around on an organizational chart.

Mr. MCKEVITT. Well, first of all, I'm not trying to buy this thing lock, stock, and barrel. We did poll our members on this recently on the concept of centralization for efficiency. I don't pretend to say that this is going to solve the problem for us. I'm not here to state that.

Senator DANFORTH. For education or energy.

Mr. MCKEVITT. Pardon me?

Senator DANFORTH. It did not work for education or energy.

Mr. MCKEVITT. Well, hopefully, it will work for us because the fact is I think we need to get much more involved in it. We have about 10 percent of our 560,000 members who are manufacturers. And as pointed out by the GAO study and by Commerce's study, a minimal amount of them are involved. Now somebody is just not getting the word out. Now if we have Commerce, have SBA, and different ones with different programs, I think it creates confusion. I think if we had one shop in DITI focusing on it, with this aspect of export promotion, I think that it might be a step in the right direction.

Senator DANFORTH. Senator Roth.

Senator ROTH. It's not an accurate description to say that we are just pouring the USTR into the Department of Commerce. We are, in effect, creating a new department that is going to have a changed role, and new responsibility. And I agree very much with you gentlemen when you say that in beating the problems that we face in international trade and competition that it is a many-fold problem. I agree that at the same time we restructure we do have to do something about trade policy. One can't accomplish it without the other. And I think that's the key point that must be understood. It is going to take a combination of factors to make this country really competitive and in a position where we won't have a $100 billion deficit in trade and loss of jobs. But instead we will have a positive picture. And I agree with you on tourism. I think this country has, in the past, totally underestimated the opportunity for jobs and revenues return through travel and tourism related activities.

The thing that I think is important to understand is that this country really has not placed the proper priority on trade, and the role that this government should play in encouraging foreign trade. In fact, if you look in the past, up to fairly recently we have not been very helpful.

Mike, it has been almost impossible for small business to compete in world markets because we weren't organized or structured to do it. So I'm not here to say that this organization will in and of itself cure all of our problems. But it seems to me that it is focusing attention with the kind of structure that will enable us to better meet the problems of the eighties and nineties. And I think the testimony of all four of you is very helpful. On your five points, as you say, we have incorporated some of them. But we would appreciate any further fine-tuning that you think might be necessary in the area before we bring it to the floor.

Gentlemen, I don't have any particular questions. Do you have any further comments that you would care to make?

Mr. McKEVITT. Well, Mr. Chairman, I would just make one comment. I don't think it's a luxury any more for small business to get involved in international trade. I think it's a necessity.

Senator ROTH. I couldn't agree more with you. And the fact is over in Japan those small businesses have had that capability. But because of our laws and policy and the inability of a one-stop shop for trade programs, if you want to put it that way, we've made it impossible for our small business.

Well, gentlemen, we look forward to working with you. And I appreciate your taking the time to be here with us today.

[Whereupon, at 12:04 p.m., the hearing was concluded.]

[The following communications were made a part of the hearing record.]

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Statement of the

American Soybean Association

Submitted to the

International Trade Subcommittee

Finance Committee

United States Senate

Department of International Trade
and Industry Proposal (S. 121)

February 27, 1984

777 CRAIG ROAD, P.O. BOX 27300, ST LOUIS, MO 63141, TELEX 4312081, PHONE (314) 432-1600
Soybeans American Soybean Association

The American Soybean Association appreciates the opportunity to offer its views on the proposal to establish a Department of International Trade and Industry. We ask that our statement be submitted in the hearing record.

The American Soybean Association is a national, volunteer, non-profit, producer-controlled, single commodity association organized to assure the opportunity for a profitable soybean industry. ASA is supported by more than 450,000 soybean producers who voluntarily invest in ASA programs through 24 separate statewide soybean checkoff programs. ASA seeks to maintain soybean profitability through its foreign market development, research, producer and public information, and government relations programs.

Few industries are as dependent on international trade as the U.S. soybean industry. Simply, exports are the lifeblood of the U.S. soybean industry. U.S. soybean farmers sell 55% of their production into the export market either as whole beans, soybean meal, soybean oil or myriad other products. With a 1982 export value of over $8.4 billion, the soybean complex is America's largest agricultural export earner and one of the top export earners of all sectors. Thus, soybean producers have great interest in U.S. trade and export policies.

It is with reluctance ASA must strongly oppose S. 121, the proposal of Senator Roth and the Administration to establish a Department of International Trade and Industry (DITI). We have long appreciated Senator Roth's support for our industry and his recognition of the need for the U.S. to establish an aggressive export policy. We certainly recognize that his efforts on behalf of a Department of International Trade and Industry stem from his concern for an aggressive U.S. trade posture and an increase in total U.S. exports.

Nevertheless, ASA does oppose the trade reorganization proposal. Our opposition centers on the fact that the reorganization would result in the Office of the U.S. Trade Representative being transferred from the Executive Office of the President to a proposed Department of International Trade and Industry. We have no concerns with, and in fact we endorse, all other provisions of the proposal as long as USTR remains intact in the Executive Office of the President and retains its current responsibilities and authority. At ASA's annual meeting in early August in Nashville, more than 260 ASA farmer voting delegates unanimously approved the following policy on the issue:

> "ASA supports continuation of the Office of the U.S. Trade Representative in the Executive Office of the President as the primary office of trade negotiations and trade policy development for the U.S., and urges that this function not be shifted to the Department of Commerce or any other department."

From our perspective, it seems the dissatisfaction with the current trade policy mechanism within the U.S. Government is centered in the industrial sector and in the services sector. Agriculture has, in general, been very pleased with how USTR and the Department of Agriculture have responded to our trade policy concerns and export promotion needs. The concerns of the non-agricultural sectors seem to center on a lack of responsiveness to their needs by the Department of Commerce. Trade has never been a major focus of the Commerce Department, and those export promotion programs that are in place have never been as successful or as well supported as the programs offered by USDA. Whether or not it is justified, the Commerce Department has long been regarded as a bloated, tortoise-like agency which has not met the needs of the sectors it is supposed to serve.

As noted earlier, we heartily endorse streamlining and increasing the efficiency of the Commerce Department by transferring several of its functions to other departments. Clearly, the non-agricultural sector deserves to have an agency that can focus its attention on trade. However, we see no reasons which justify transferring USTR to a streamlined Commerce Department and undermining USTR's impartiality with respect to the agricultural sector. It would seem to us the first priority should be making the Commerce Department into an agency which achieves its current important trade mission for its constituencies, not broadening its role.

The Office of the USTR has the respect and support of the agricultural sector because it has proven over the years to be an impartial, responsive agency staffed by conscientious, talented professionals and directed by highly respected USTRs. Bill Brock, Bob Strauss and Reubin Askew have been very responsive to American agriculture and they have also had national stature and access to the President. We believe the success of the Office of the U.S. Trade Representative has been its White House affiliation and the fact that it is responsible only for overall trade policy development and negotiations. It does not have a responsibility to promote one sector's exports over another. The Office of the USTR is viewed as the honest broker, an impartial coordinator of a trade policy which is best for America as a whole, not for its parts.

It is important to understand why American agriculture sees the need for an impartial USTR. While over one-fourth of American jobs are tied to the food and agricultural sector, the fact remains the non-agricultural sector is much larger. American agriculture cannot afford to be put in a position where the industrial sector has a political upper hand in formulating overall U.S. trade policy. Several members of the Committee are undoubtedly aware of how soybean exports to China were held up for over six months because of a dispute between the U.S. and China over U.S. textile import quotas. When the U.S. failed to grant quotas on textiles large enough to suit the Chinese, the P.R.C. responded by ceasing to purchase U.S. soybeans, wheat, cotton, corn and synthetic fibers. That situation was a perfect case where agriculture paid the cost of protecting an industrial sector. With the Office of the USTR as an arm of the White House charged only with formulating an overall trade policy, we have felt more secure our interests would be treated fairly.

Under the proposed trade reorganization, the U.S. Trade Representative would be the Secretary of the Department of International Trade and Industry. In addition to formulating overall national trade policy as USTR, the same individual in the role of Secretary of the Department of International Trade and Industry would be responsible for promoting the economic health and export performance of the industrial sector. In our view such an arrangement would destroy the impartiality of the Office of the USTR and result in its being more responsive to the needs of the industrial and service sectors than to the agricultural sector. We know many claim that impartiality could be maintained, but most of those making such a claim are in the industrial or services sector. Would those same people believe the impartiality of the Office of the USTR would be maintained if it were transferred to the Department of Agriculture? We think not.

We appreciate Senator Roth's efforts to prepare a working draft substitute for S. 121 which attempts to satisfy some of the concerns of the agricultural community. Those changes, however, do not overcome our basic opposition to shifting the Office of the USTR to a revamped Commerce Department. As long as the USTR/Secretary of the Department of International Trade and Industry would have the responsibility for promoting industrial trade, we cannot support the proposal.

In addition, we believe it would tend to create a more protectionist stance on trade policy as the USTR/Secretary of the Department of International Trade and Industry would reflect more of the thinking of the relatively less competitive industrial sector, rather than the relatively more competitive agricultural sector. We believe moving the Office of the USTR to a department from the Executive Office of the President downgrades trade policy rather than upgrading it. In the Executive Office of the President, the USTR has power to arbitrate among departments. In a department it could not arbitrate, but instead would be just another department. How can moving the chief trade policy spokesman out of the White House to a department across town make a President pay more attention to trade? Finally, we ask what is wrong with the current situation? From our perspective the

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Office of the USTR seems to be doing a good job in formulating overall trade policy. If the industrial sector is displeased with the services it is receiving it should focus on the Department of Commerce, not the Office of the USTR, to find the problem.

We urge the Congress to leave USTR alone to perform the functions it was assigned when created by the Congress. In turn, we urge the Congress to focus the mission of the Commerce Department on promoting industrial and services trade by transferring unrelated agencies to other departments. We urge that the USTR be made a member of the National Security Council and be given an office in the West Wing of the White House. An interagency trade committee should be established with the President as Chairman and with the USTR as Chairman pro tempore. Most importantly, we urge the Congress to support exports. Instead of attempting to restrict imports, the Congress should be promoting exports by offering adequate export financing and by putting real pressure on our competitors to end their subsidies and open their markets. America was once competitive in all sectors and it can be again, but it will require national attention to make it so.

ASA sees the trade reorgnization proposal as negative to agriculture's interests and counter to the long-term interests of America. We urge the Congress to alter the proposal in the manner we have suggested.

Thank you.

**Travel Industry Association of America**

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DISCOVER AMERICA

March 16, 1984

The Honorable John C. Danforth
Chairman, Subcommittee on
International Trade
Committee on Finance
U.S. Senate
Washington, D.C. 20510

Dear Chairman Danforth:

The Travel Industry Association of America (TIA) appreciates this opportunity to set forth, for the record, its views with respect to S. 121, legislation to create a new Department of International Trade and Industry.

TIA fills a unique need in the travel industry that stems from the industry's own diverse nature. Our membership is drawn from the airlines, attractions, hotels and motels, travel agents, tour operators, convention and visitors bureaus, state government travel offices, food service establishments, intercity bus and rail lines, and other components of the travel industry.

Tourism in America is served by nearly a million different businesses that offer a wide range of services to the traveler. Some of these businesses are organized nationally by industry component and are represented by trade associations that promote and protect their specialized interests; however, to represent the broad base of tourism, the Travel Industry Association of America deals with issues of interest and concern common to all in the travel and tourism industry.

Few of the industry's concerns are more important or affect the industry more broadly, than the critical role the United States Travel and Tourism Administration (USTTA) plays in marketing the United States as a travel destination for international tourists.

The history of the national tourism policy legislation movement has been long and arduous, beginning in 1974 when Senate Resolution 347, cosponsored by 71 Senators, authorized a national tourism policy study. In 1977, the national tourism policy study issued its report and recommendations, which included results of a series of extensive regional and national meetings to assess the needs of the travel and tourism industry. These meetings were attended by nearly 300 public and private sector industry leaders. The culmination of this investment of time and cost in terms of extensive hearings and detailed private and public input took the form of the National Tourism Policy Act of 1981, which designated USTTA as its principal instrument of policy implementation.

Mr. Chairman, we have reviewed this history in order to put into perspective where we stand today with regard to S. 121, which proposes the transfer of USTTA to the new Department of International Trade and Industry and the forefront of international trade policy. In addition, the legislation provides for an Under Secretary for Travel and Tourism in the new department -- a position established by statute in the National Tourism Policy Act of 1981 (P.L. 97-63). Since a large proportion of U.S. trade is travel and tourism, we are in agreement with our affiliate, the Travel and Tourism Government Affairs Council, that the proposed transfer of USTTA and the attendant position of Under Secretary for Travel and Tourism to the new department is logical and appropriate.

Travel and Tourism is now the largest services sector export (excluding U.S. foreign investment income) and the third largest source of export income. In 1982, international visitors to the United States spent over $11 billion, generated $640 million in federal tax revenue and supported 300,000 American jobs. Over 20 million foreign visitors arrived in the U.S. in 1982, and every 54 of these international travelers accounted for one new job.

It is now the second largest retail industry in the United States. In 1982, the industry generated $194 billion in receipts and $20 billion in federal, state and local tax revenues. It directly employs 4.5 million Americans at every level of skill and indirectly provides another

2.2 million supporting jobs. There are over one-half million U.S. businesses serving the traveler and nearly all are small businesses (as classified by the Small Business Administration).

Clearly, USTTA's revenue-producing international travel promotional programs constitute a rational government policy that contributes to the viability of hundreds of thousands of small businesses and, perhaps more important, supports executive branch and congressional efforts to minimize and to reduce unemployment, to generate additional federal revenue, and to improve our balance of payments. Yet USTTA, our primary instrument of national tourism policy implementation, has lacked the federal institutional support necessary and appropriate to tourism -- our most lucrative service export.

The USTTA's objectives are basically threefold: to promote the U.S. as a travel destination through the development and implementation of a competitive marketing plan; to act as a catalyst in the identification and elimination of international barriers to tourism and otherwise represent tourism interests in the coordination and formulation of related federal policy; and provide a framework for the cooperative partnership of business and government to achieve these goals through data collection and analysis, technical information exchange and training and education.

This partnership is exemplified by the recent initiative undertaken by TIA to assemble a panel of top-level marketing executives to develop a recommended marketing plan for USTTA. The International Marketing Plan Development Committee began drafting initial strategies which will ultimately be expanded into a comprehensive plan and submitted to Congress, the Administration and USTTA this spring. These efforts represent a promising beginning, if not a remedy for all that has plagued the implementation of an effective and viable tourism policy.

We believe S. 121 represents not only the first step in developing and implementing a coordinated approach to federal trade policy, but a new awareness of the economic contributions of all international trade -- goods and services. The enactment of this legislation will ultimately usher in a new, more competitive era in international trade policy and begin to focus some much-needed attention on industries, like tourism, with truly exceptional economic potential.

It is for these reasons that the Travel Industry Association of America supports S. 121. At your request, we will be happy to provide you or your staff with any additional information you may need.

Sincerely,

William D. Toohey
President

WDT:sr

U.S. Council for an Open World Economy
INCORPORATED
7216 Stafford Road, Alexandria, Virginia 22307
(202) 785-3772

Statement submitted by David J. Steinberg, President, U.S. Council for an Open World Economy, to the Subcommittee on International Trade of the U.S. Senate Committee on Finance in hearings on S.121 (as reported by the Senate Committee on Governmental Affairs), a bill to establish a Department of International Trade and Industry as an executive department of the government (March 1984)

(The U.S. Council for an Open World Economy is a private, non-profit, public-interest organization engaged in research and public education on the merits and problems of developing an open international economic system in the overall national interest. The Council does not act on behalf of any private or other special interest.)

U.S. trade policy, and the U.S. administrative structure in this policy area, are in a serious state of unpreparedness. There is urgent need for close coordination of all government functions relating to international trade, for upgrading trade expansion and liberalization to a high priority in the nation's objectives, for making a convincing commitment to totally free and totally fair international trade, and for ensuring that the U.S. economy, indeed the economy of every state in the Union, adjusts successfully to the new realities of international competition and interdependence.

Creation of a Cabinet-level Department of International Trade and Industry (by this or similar name), primarily combining the functions of the U.S. Trade Representative (STR) and the trade-related responsibilities (as amplified) of the Department of Commerce, is not the answer, nor even a step in the right direction. It would be illusory to expect that such reorganization would contribute significantly even to the objectives which supporters of such a proposal have declared as their purpose. Other departments of government, equal in stature to the proposed new department and in some cases possessing influence unlikely to be neutralized or exceeded by a "new boy on the block", would and should retain significant interests in international-trade issues affecting their basic responsibilities. The Cabinet officers heading these departments may be expected to bring their views on these issues to the President if such recourse is deemed necessary. Placing the Secretary of International Trade and Industry in virtual charge of a new Cabinet council on international trade, economic and financial policy (as the bill proposes) would not ensure the effective coordination that is so essential and which the bill's supporters envision. Nor would creation of the new department be sufficient to dramatize the importance of international trade to the nation's economic viability. Nor would the proposed structure ensure that trade policy would have its proper place in government handling of overall foreign economic policy. Nor would it ensure (it would in fact detract from) adequate government planning for the kind of trade-policy strategy to which the government's best efforts must urgently be directed -- namely, a definitive, deliberate, free-trade strategy in foreign economic policy, backstopped by a suitable redevelopment, full-employment strategy in domestic economic policy.

A President who wants to elevate trade policy to the priority it merits, and to eliminate "turf" confusion and duplication in this field, can do so under the present structural set-up. "Turf" confusion and duplication cannot be eradicated under the present structure, nor would it be eradicated under the bill establishing a department of international trade by one name or another, unless the President so fashioned his involvement in this policy area as to accomplish such reform. If government reorganization is to be undertaken in this area, it should be nothing less than the kind of reorganization the nation urgently needs -- the one best calculated to secure the trade-policy objectives that best advance the total national interest.

The key role in advancing this policy strategy must be located, not in a "regular" department of government, but in the Executive Office of the President. Similarly, the key role in advancing the domestic-adjustment strategy needed to backstop a properly crafted trade policy must also be in the Executive Office of the President. The regular Cabinet departments will have more than enough to do carrying out their special duties in the various sectors for which these agencies are basically responsible. It is obvious from S.121 that the Secretary of the proposed Department of International Trade and Industry would have a heavy load of important responsibilities in the wide range of trade promotion, industrial assistance and other functions entrusted to this Department outside the trade negotiation and other overall trade-policy responsibilities the bill would assign to the Secretary of this Department.

Although the Office of the U.S. Trade Representative, located in the Executive Office of the President, is not now performing adequately in trade-policy planning in the strategy sense I have advocated (the fault is primarily an inadequate mandate from the President), STR is the place where such planning should be directed and coordinated. To remove STR from the Executive Office of the President and place it in the proposed department of international trade in addition to all the other duties entrusted to that department would be to weaken the President's capabilities for the kind of trade-policy planning in which he urgently needs to be involved in the total national interest.

Recommendations

The President should upgrade trade policy, in the context of upgrading foreign economic policy, to a priority equal in stature to national security in policy planning. This should be reflected in formation of an inter-agency council on foreign economic policy, equivalent in stature to the National Security Council. Reorganization along these lines should be given a statutory base as soon as possible. The structure I propose would be significantly different from that provided in Section 266 of S.121. Among other drawbacks, Section 266 assigns the Secretary of the proposed department major responsibilities beyond trade policy per se and which should not be a function of the head of a department of international trade and industry.

With the President serving as chairman, the council's chief operations officer should be an executive vice-chairman who is not also the head of any regular Cabinet department. The executive vice-chairman, who should have Cabinet rank and whose appointment should be subject to Senate confirmation, should also have the post now occupied by the U.S. Trade Representative. A special deputy should concentrate on the trade-negotiating segment of the executive vice-chairman's responsibilities. The council should be more than a coordinating body. It should be a foreign-economic-policy planning board in the full sense. Its priorities should include (a) planning for a free-and-fair-trade charter involving the United States and as many other economically advanced countries as care to participate with us in a free trade area, (b) related reform of the international monetary system to, inter alia, ensure equitable exchange rates, and (c) a well-designed foreign-aid program aimed at raising living standards and purchasing power in the world's poorest countries. All these policy ingredients, incidentally, are essential but greatly neglected components of an effective export-expansion policy.

The council should submit an annual report to Congress on progress and problems in this policy area. The report should be the subject of incisive Congressional hearings.

Government reorganization affecting international trade should also include formation of an inter-agency council on national economic development, equal in stature to the council on foreign economic policy and the National Security Council. With the President serving as chairman, the council's chief operations officer (with Cabinet rank) should be someone not occupying any other government post. The appointment should be subject to Senate confirmation. The council's responsibilities should include coordination of government efforts geared to ensuring that a free-trade strategy fully benefits the U.S. economy, advancing the best interests, not only of the nation as a whole, but of every state in the Union. The council should submit an annual report to Congress on the adjustment achievements and problems of the American economy. The report should be the subject of incisive Congressional hearings.

One of the major functions of the Department of Commerce in this context should be primary responsibility for the government's role in doing what it is appropriate for government to do in helping U.S. industries adjust to the rapidly changing forces of international competition. The Department's key responsibilities in export expansion and industrial adjustment should be underscored by designation of an Undersecretary for Export Expansion and an Undersecretary for Industrial Development and Productivity.

While I support a first-class industrial analysis function in the Department of Commerce (encompassing the duties outlined in S.121's section concerning an Office of Competitive Analysis), I do not support the proposed establishment of special government-business-labor councils on an ad hoc basis to address the issues revealed in the industrial studies produced by such an office. There should be industry-labor advisory committees on a continuing basis with respect to every industrial sector deserving incisive government attention.

national grange

1616 H STREET, N.W. WASHINGTON, D.C. 20006 (202) 628-3507

Edward Andersen, Master

March 9, 1984

Honorable John C. Danforth, Chairman
Subcommittee on International Trade
Committee on Finance
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

The Trade Act of 1962 established the Office of Special Trade Representative (STR) in the Office of the President. Congress, in their wisdom, placed the office responsible for international trade negotiations in the White House to insure that that office had direct access to the President. Congress also determined, in establishing the STR, that such an office, separate from any other federal department or agency, be an "honest broker" between divergent interests on U.S. international trade policy. The National Grange believes Congress was right in 1962 and would be right today in reaffirming their belief by turning back any effort to establish a new Department of Trade with responsibility over the international trade policy of the United States. Since the passage of the Trade Act of 1962, there has been several attempts to reorganize the international trade functions of the federal government into a separate department with cabinet rank -- each has failed as should S.121 and S.21.

The attempt of the present Administration to reorganization the trade function of the federal government started during the transition from the Carter Administration. At that time it was observed that having the United States Trade Representative attached to the Office of the President ballooned the White House staff beyond the number which the transition team of the Reagan Administration found acceptable. It was, therefore, proposed to reorganize the international Trade functions of the federal government by transferring out of the White House, the STR and his staff and place them in the Department of Commerce. Because of strong objections from Congress, farm organizations, including the Grange, the plan was dropped.

However, during the last year legislation has been introduced by Senator Roth (S.121) and Senator Moynihan (S.21) which would establish a new Department of Trade. The legislation is now pending before your subcommittee on International Trade.

The National Grange wishes to thank the Senators for their leadership in focusing debate on the importance of international trade to the nation's economy and for their continued efforts to develop a more coherent and effective U.S. trade policy. It is because of our high regard for these two outstanding

Senators that we reluctantly oppose both efforts to create a new department of trade. We oppose a new department of trade for the following reasons:

1. A large bureaucracy, particularly one built around a Department of Commerce which is traditionally and appropriately oriented to be an advocate of business (non-agricultural) interests, could not be as open and receptive to agricultural views as USTR has been over the years. Even with a high-level agricultural leader within such a department, a bureaucratic bias toward its historic interests would prevail.

2. Effective trade policy coordination based on consistent and clearly defined objectives can be achieved only to the degree that the President assigns high priority to international economic as well as political issues, and to the efficiency of Congressional oversight responsibilities. A strong U.S. Trade Representative within the White House is as able or more able than an equally strong Secretary of Trade to influence the President appropriately. Furthermore, it would seem obvious that Congressional oversight of trade policy forumulation and coordination is simplified by dealing with a smaller USTR group than with a large Trade bureaucracy.

3. Special interests have sometimes in the past found special sympathy in a business-oriented Department of Trade (e.g., the recent damage to U.S. agricultural trade opportunities in China brought about by over-responsiveness to the Department of Commerce's textile constituency). These special relationships are so deeply entrenched that there is fear they would lead to further damaging protectionist steps which would bring about retaliation, disrupt world trading systems and thereby severely hurt both our agricultural and our national interests. The stronger influence in trade matters of what is now a Department of Commerce could thus pose a threat toward shrinking rather than expanding world trade and U.S. export opportunities.

4. Reorganization would not do away with conflicting interests of various sectors of government and private traders. The coordinating process would merely be shifted to another arena. Long-standing agricultural apprehension that the political concerns of the State Department would be given undue weight would be revived.

5. Preoccupation with trade reorganization at this time may diminish the government's efforts to deal adequately with the many crucial and unresolved trade problems which must be given full and undivided attention by key trade officials who are now distracted by the reorganization debate.

The reorganization plans recognize the continued need for a higher level coordinating capacity within the Executive Office of the President. The suggestion now that a small White House staff handle "trade issue coordination" is precisely what USTR was created by Congress to do. Thus, instead of working with existing structure of USTR, the Administration's plan would replace it with a group of a different name, but with the same function. Congress is, in fact, being asked to trade names in the box, while losing its statutory adviser provided in the 1962 Act.

U.S. agriculture has consistently opposed the idea of a Department of Trade as the answer to our complex and difficult trade problems. Reorganization would not reduce these complexities, it would merely shift the balance of interests in a way which would not serve either our agricultural or our national trade interests. We respectfully urge your opposition to such proposals.

We would appreciate this letter being made a part of the hearing record.

Thank you.

Sincerely,

Edward Andersen

Edward Andersen, Master
The National Grange

EA:khv

cc: Members of the Senate
Finance Committee

CONSUMERS FOR WORLD TRADE
1346 Connecticut Avenue NW
Washington, D.C. 20036
202-785-4835

March 19, 1984

The Honorable William V. Roth, Jr.
Hart Senate Office Building
104
Washington, D.C. 20510

Dear Senator Roth:

During the hearing of February 27 on the Trade Reorganization Act of 1983, you asked Consumers for World Trade (CWT) for any suggestions we might have: "to provide a more effective voice for both consumers and retailers" in matters of trade policy. As you know, in the testimony which I presented, CWT opposed S. 121.

Although we do not believe that S. 121 is the proper vehicle to improve the existing trade structure and reinforce our government's open trade policies, CWT does have serious concerns about the lack of mandate in our trade law to take into account the impact of trade policy on consumers. To that end, we have prepared proposed legislation to modify the Trade Act of 1974 (see attached) so that the ITC, not the President, would be responsible for calculating and assessing the costs to consumers of increases in protection. This would presumably result in more thorough and professional analysis of such costs; inject consideration of this analysis at the beginning of the process; make it part of the public record, as it would be included in the Commission's report to the President. In addition, it would open the analysis to the scrutiny and criticism of outside professionals; alert groups likely to be hurt in advance and better sensitize legislators, the media and the public that there are costs involved.

I hope this proposed bill will be of interest to you and would appreciate any comments you may have.

Sincerely,

Doreen L. Brown

Doreen L. Brown
President

DLB:k

CONSUMERS FOR WORLD TRADE
1346 Connecticut Avenue NW
Washington, D.C. 20036
202-785-4835

A BILL

To require that, before the President determines whether to provide import relief to a domestic industry under section 202 of the Trade Act of 1974, the United States International Trade Commission shall estimate, and the President shall take into account, the effect of such relief on consumers.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

Section 1. In subparagraph (A) of section 201(d)(1) of the Trade Expansion Act of 1974 (19 U.S.C. 2251(d)(1)(A), insert the following after "injury":

"and estimate the effect of such increase or imposition on private and industrial consumers, including the price and availability of the imported article and the like or directly competitive article produced in the United States".

Section 2. In paragraph (4) of section 202(c) of the Trade Expansion Act of 1974 (19 U.S.C. 2252(c)(4)), strike the parentheses and the language therein and substitute ", as estimated by the Commission,".