CHAPTER 3

Protectionism and the United States in the World Trading System

TRADE AMONG NATIONS benefits buyers and sellers alike. Adam Smith made this point more than 200 years ago when he attacked the mercantilist view that only the exporting nation gains from trade. Although the world trading system has never been entirely free, most observers agree that freer trade promotes more rapid growth, improves the use of a nation's resources, encourages innovation, and ensures a higher standard of living for all trading partners. A bipartisan consensus over the past 50 years has enabled the United States to lead the world toward a more open trading system.

On September 23, 1985, the President, in reconfirming the U.S. commitment to free trade, stated that, "if trade is not fair for all, then trade is 'free' in name only." This Nation benefits from free trade, but it particularly gains when trading partners also open their markets. Consequently, the Administration has rejected new calls for protectionism and has placed primary emphasis on reducing foreign barriers that restrict U.S. exports.

Nevertheless, protectionist bills have been introduced in the Congress in large numbers during the past year. Many of their supporters have focused on the current large trade deficit or on the decline of manufacturing employment compared to 1979. The remedy often proposed to deal with these situations is greater restriction of trade. Consequently, one purpose of this chapter is to analyze popular arguments for increased protectionism. The case for protectionism is found to be a misleading basis for policy.

A second purpose is to review recent trade policy developments affecting the following areas: footwear, steel, textiles, semiconductors, and agricultural exports. These examples do not exhaust the number of industries facing intense international competition, but raise representative policy issues addressed recently. The discussion of these examples suggests when trade intervention is not likely to be successful in promoting U.S. production in the intended industry and what costs are likely to be imposed on U.S. consumers, taxpayers, and other industries.

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A third purpose is to explain the rationale behind the Administration's Trade Policy Action Plan. The policy requires interrelated actions by the United States and by its trading partners to ensure free and fair trade. Several aspects of the plan are discussed here. Major goals include promoting multilateral efforts to reduce current trade barriers, extending international trade rules to situations currently not covered, ensuring fair trade through rigorous enforcement of current trade laws and agreements, and assisting workers to adjust to changing patterns of world trade. An additional aspect of the plan, the pursuit of policies to promote more balanced world growth and thereby to reduce the current trade deficit, is discussed in Chapter 1.

CLAIMS FOR PROTECTIONISM

In spite of the generally recognized benefits of an open trading system, some argue for a broad reversal of this policy and for increased government control over international trade. For example, legislation has been introduced to impose both general and country-specific import surcharges to reduce the trade deficit. Some commentators blame increases in this deficit for massive job losses and a reduction in the U.S. growth rate. Others argue that the deficit is deindustrializing the economy and eliminating manufacturing jobs. These arguments are based on an inadequate understanding of the benefits of trade and of changes occurring in the U.S. economy. The remedies suggested are likely to be costly and inappropriate.

PROTECTIONISM AND THE TRADE DEFICIT

In the first 9 months of 1985 the U.S. merchandise trade deficit, the excess of imports over exports of goods, was about $114 billion at an annual rate. The current account deficit, which also includes transfer payments and trade in services, was about $110 billion. Some suggest that if this deficit were curtailed and spending were shifted to domestic goods through the imposition of a general import surcharge, the United States would benefit from expanding national output. Others elaborate on this argument by claiming that a surcharge would lower the value of the dollar, a step that would make domestic tradable goods more attractive.

Such a policy would be misguided for several reasons. In particular, it ignores the macroeconomic factors that determine the current account balance. Because the current account deficit represents an inflow of funds into the United States when domestic investment exceeds domestic saving, any successful policy to reduce this deficit must alter the underlying saving and investment incentives in the United States and abroad. Reliance on protectionism to reduce the

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trade deficit by increasing the relative price of imports is unlikely to succeed. An import surcharge will reduce spending on imports, but in a world with flexible exchange rates and unchanged saving and investment incentives, the U.S. dollar will appreciate. As a result, exports will decline and imports will fail to decline as much as if exchange rates remained unchanged. The surcharge primarily introduces an inefficiency into the economy, which in turn reduces national income.

The most significant impacts of a surcharge are likely to be distributional. Returns to resources used primarily in the production of import-competing goods tend to rise, while returns to resources used primarily in export industries tend to fall. There will be an incentive to shift resources out of export industries into import-competing industries. Reduced imports in industries such as apparel, steel, and autos are likely to be offset by reduced exports from industries such as aircraft, chemicals, and machinery. A significant reduction of the trade deficit is unlikely.

An import surcharge is a particularly undesirable way of attempting to reduce the trade deficit because of likely foreign retaliation. The United States is not a small country whose actions will be ignored by others. When foreigners retaliate, they can be expected to choose U.S. export sectors that are particularly vulnerable and subject to intense foreign competition, such as agriculture.

While a general surcharge will not be particularly effective in reducing the trade deficit, a surcharge directed against a few countries promises even less chance of success. Countries exempted from the surcharge would tend to increase sales to the United States. Countries subject to the surcharge would divert their exports to markets previously served by the exempt suppliers. Such a policy might disrupt trade initially, but eventually it would have a minimal impact on the overall U.S. trade balance unless the targeted countries happened to produce goods with few substitutes and few alternative sources of supply.

A surcharge is unlikely to have even a short-run economic payoff, but it has considerable potential to alienate major trading partners and to set in motion market-closing measures on a worldwide scale. Because the current account balance is determined primarily by macroeconomic relationships, a commercial policy such as a surcharge is particularly unsuited to eliminating the present U.S. trade deficit.

PROTECTIONISM AND JOBS

Many argue that an import surcharge will save jobs. For example, some observers claim that each additional billion dollars worth of imports costs 25,000 to 30,000 jobs. Behind this assertion is the impli-

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cation that reductions in imports must lead to greater spending on domestic goods. Protection may save jobs in import-competing industries, but this is likely to be matched by the less visible loss of jobs elsewhere in the economy. For example, a decline in U.S. exports can be expected when the dollar appreciates, but also when foreign countries earn less from their sales to the United States. The loss of exports will be particularly severe if foreign countries close their markets in retaliation against the U.S. surcharge.

One measure of whether current economic policy is costing jobs is the change in total employment in the economy. By that standard U.S. performance has been exceptional in recent years. The expansion of imports has not come at the expense of aggregate employment in the United States. Civilian employment has grown substantially and 8 million more people were employed at the end of 1985 than when the President took office. Such a record stands in contrast to those of other developed countries, many of which are running trade surpluses but which have failed to add significantly to their employment.

Inadequate employment growth can foster bad economic policy as countries adopt costly measures in an attempt to preserve existing jobs. All too often these efforts introduce rigidities and inefficiencies into the economy. Trade barriers, subsidies, and plant closing regulations are adopted in spite of market signals indicating that patterns of demand have shifted or that an industry's international competitiveness is declining. Other potentially competitive industries become so burdened with higher taxes and inflated input costs that they no longer offer the prospect of long-run growth. Ironically, the very goal of job preservation becomes less attainable when governments resort to greater protectionism and subsidization of politically powerful industries.

PROTECTIONISM AND DEINDUSTRIALIZATION

As shown in Chapter 1, goods production has accounted for a remarkably constant share of U.S. output. Nevertheless, in some major export- and import-competing industries, output has declined or has expanded less rapidly than in the rest of the economy. Total employment within manufacturing has not regained the level reached in 1979. Some commentators view these circumstances as symptoms of the deindustrialization of America. By failing to consider the rise in manufacturing productivity and output, this reasoning mistakenly attributes to the trade deficit changes in the observed pattern of input usage that have been caused by other factors.

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Manufacturing Output Performance

Strong U.S. economic growth has allowed both imports and domestic output of manufactured goods to rise. Additionally, strong domestic demand can divert U.S. production from export markets. Increases in the trade deficit and the import share of the domestic market (the import-penetration ratio) do not indicate a weakened domestic industrial capability; in fact, U.S. manufacturing output has expanded. In particular, over the 1982–84 period, the import-penetration ratio for all manufactured goods rose from less than 9 percent to nearly 11 percent, and manufactured exports as a share of shipments declined from 8.8 percent to 7.6 percent. Nevertheless, U.S. industrial production in manufacturing rose 7.8 percent in 1983 and 12.4 percent in 1984. The 1984 performance allowed total manufacturing output to surpass the past peak established in 1979, and in 1985 manufacturing output continued to expand, although at a slower rate.

The index of industrial production in manufacturing is shown in Chart 3–1, together with the gross national product (GNP). Manufacturing production is more variable than total production over the business cycle, generally falling more in recessions and rising more in expansions. The economic decline in 1982, followed by an exceptionally strong recovery in 1983–84, is quite consistent with this pattern. The fact that manufacturing output has grown steadily with the economy is reflected by the very narrow band in which manufacturing's share of GNP has fluctuated over the past two decades, from 20 to 22 percent. There has been no radical shift in demand away from U.S. manufactured goods, nor has growing international competitive pressure substantially altered this relationship. Sales lost in import and export markets have been offset by the expansion of manufacturing output necessary to satisfy greater domestic consumption, investment, or government purchases.

Manufacturing Input Usage

Strong growth in manufacturing output during the current expansion has not required proportionate increases in capital and labor inputs. Such reductions in input requirements per unit of output are what allow increases in U.S. wage rates and the standard of living. In the case of labor, annual growth of output per hour worked (labor productivity) in manufacturing was 2.6 percent from 1948 to 1984. This exceeds the corresponding economy-wide rate of 1.6 percent, and helps explain why manufacturing's share of total employment has fallen steadily over the past three decades. Furthermore, the relatively more rapid growth of labor productivity in manufacturing has been accompanied by a more rapid rise in manufacturing wages than those

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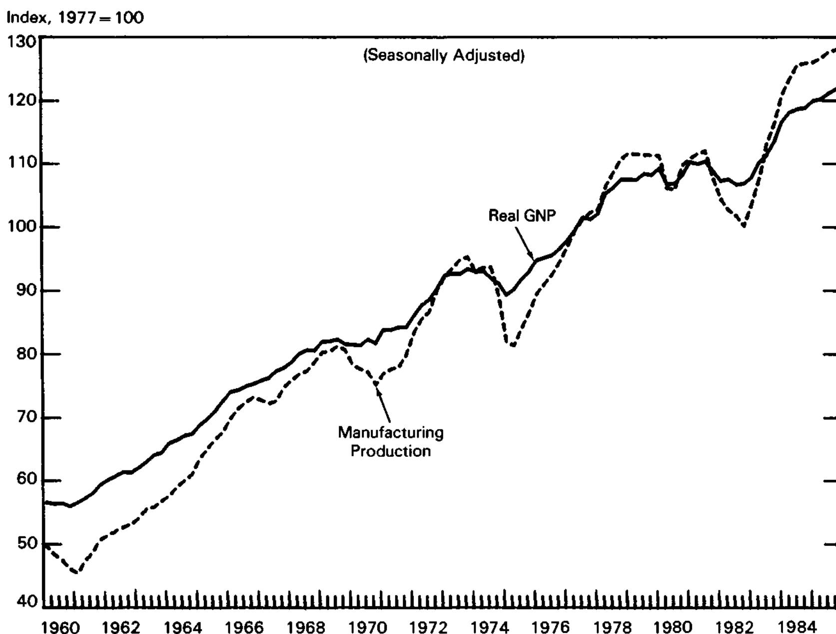
Chart 3-1

Manufacturing Production and Real GNP



Note.—Index for real GNP based on data in 1982 dollars.

Sources: Department of Commerce and Board of Governors of the Federal Reserve System.

in the rest of the economy. For example, average hourly earnings in manufacturing were 5 percent greater than in the economy as a whole in 1969, but this differential rose to 9 percent in 1979 and 11 percent in 1985.

One reason labor productivity has increased is the substitution of capital for labor. The capital-labor ratio in manufacturing was two and one-half times as great in 1984 as it was in 1948. However, as shown in Table 3-1, during the most recent expansion both capital and labor requirements per unit of output have fallen. A possible explanation of this result is technological improvement, generated by the electronics revolution in particular, which has allowed major input savings. Also, the composition of output within manufacturing has changed, shifting toward industries that appear best able to take advantage of newer, more efficient technologies.

Manufacturing employment may well continue to decline as productivity grows, especially if the wage gap in favor of manufacturing

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TABLE 3-1.—*Manufacturing sector indicators, 1973-84*

Year	Import penetration (percent)[1]	Industrial production (1977=100)	Employment (thousands)[2]	Productivity (1977=100)[3]	Average hourly earnings (dollars)[4]	Real net capital stock (billions of 1982 dollars)[5]
1973	6.2	94.0	20,154	93.4	4.09	554.2
1974	7.2	92.6	20,077	90.6	4.42	581.1
1975	6.5	83.4	18,323	92.9	4.83	597.2
1976	6.7	91.9	18,997	97.1	5.22	612.5
1977	6.9	100.0	19,682	100.0	5.68	630.5
1978	7.8	107.1	20,505	101.5	6.17	655.1
1979	7.9	111.5	21,040	101.4	6.70	681.4
1980	8.2	108.2	20,285	101.4	7.27	707.2
1981	8.5	110.5	20,170	103.6	7.99	729.7
1982	8.9	102.2	18,781	105.9	8.49	741.3
1983	9.3	110.2	18,434	112.9	8.83	741.1
1984	10.9	123.9	19,412	118.5	9.18	752.9

[1] Imports as percent of manufacturers' shipments plus imports minus exports; based on value data.
[2] All employees; establishment data.
[3] Output per hour of all persons.
[4] For production workers.
[5] End of year. Based on data to be published in *Survey of Current Business.*

Sources: Department of Commerce (Bureau of Economic Analysis and Bureau of the Census), Department of Labor (Bureau of Labor Statistics), and Board of Governors of the Federal Reserve System.

widens. This outcome cannot be blamed on the trade deficit. Rather, this process of change is similar in many respects to the profound restructuring of the U.S. agricultural sector that has occurred over the past century. Compared with the situation 60 years ago, real agricultural output is now two and one-half times as great, but rising productivity has resulted in farm employment falling to less than one-third of its level in the 1920s.

A decline in sectoral employment need not signal a lack of efficiency or the inability of U.S. producers to compete internationally. Instead, it can be part of the process whereby U.S. producers become more efficient and competitive. Furthermore, in a competitive market productivity will grow as firms introduce new technologies when they become economically profitable, regardless of whether those technologies give a competitive advantage over other U.S. producers or over foreign producers.

RECENT AND PROSPECTIVE TRADE POLICY ACTIONS

The Administration has taken several trade policy actions in the past year that affect particular industries. A review of these actions demonstrates the variety of international competitive pressures confronted by U.S. producers and the extent to which government intervention may be ineffective in alleviating these pressures, especially in the long run. The effects of these actions on domestic consumers, taxpayers, and producers in other industries are also discussed, as are relevant U.S. international economic interests.

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In 1985 the President rejected the domestic industry's petition for import relief brought under Section 201 of the Trade Act of 1974. The President concluded that import barriers would impose substantial costs on U.S. consumers and reduce U.S. exports, while likely saving jobs in the domestic industry only on a temporary basis. The Congress subsequently passed legislation to reduce footwear imports as part of a textile trade bill, but the President vetoed it. To evaluate this series of actions, it is necessary first to understand the background of Section 201 in general and then of the circumstances in the footwear industry.

Section 201 contains procedures for providing temporary protection to import-sensitive industries for the purpose of promoting adjustment to a loss of competitiveness internationally. This statute, and its counterpart in the General Agreement on Tariffs and Trade (GATT), are referred to as the "escape clause," because no demonstration of unfair trade practices is necessary to justify temporary protection. Rather, Section 201 specifies conditions under which temporary relief can be granted to an industry that has been seriously injured (or threatened with serious injury) by imports. In such cases, the International Trade Commission (ITC) determines whether the industry has been seriously injured and whether imports have been a substantial cause of this injury. If so, the ITC recommends to the President the appropriate remedy to promote adjustment by the domestic industry.

The President considers a broader set of criteria in determining what method and amount of relief, if any, is in the national interest. These factors include effects on consumers, international economic interests of the United States, the probable effectiveness of relief in promoting adjustment, the consequences on other industries if compensation is granted to foreign countries, and the economic costs incurred by workers and communities if import relief is or is not provided. If the President decides that some form of import relief is in the national interest, he is statutorily limited to granting a maximum of 8 years of protection. The domestic industry that emerges from this adjustment period is expected to be fully competitive with foreign producers.

Since 1975 the ITC has ruled on 55 escape clause relief petitions. The Commission recommended trade relief in 32 cases, and the President granted some form of trade relief in 13. Because the ITC and the President are charged with different responsibilities in Section 201 cases, this record of divergent views over the appropriateness of relief should not be surprising. Nevertheless, the Congress is considering legislation to ensure that a finding of injury to an indus-

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try results in relief being granted. Other proposals would further amend conditions for relief and require only that imports be a cause, although not a substantial cause, of injury to the industry. Steps in this direction would result in an unbalanced assessment of trade policy, because they ignore the many other effects the President is charged to consider.

In the case of the nonrubber footwear industry, the prospects for industry revitalization could be inferred in part from the escape clause relief provided from 1977 to 1981. Orderly marketing agreements limited shipments from the two major suppliers, Taiwan and Korea. Growth in the quantity of imports slackened, although the effect on the import-penetration ratio measured in value terms was less pronounced. No increase in real investment to retool the industry occurred, while labor productivity actually fell. As shown in Table 3-2, employment declined less rapidly. But this industry is one of the most labor intensive in the manufacturing sector, and the opportunity to reduce labor costs substantially through greater capital investment is limited to only a few products. It is not surprising that protection did not enable most segments of the industry to become competitive with foreign producers who can pay much lower wages. Moreover, U.S. quotas gave foreign producers an incentive to reduce shipments of low-cost merchandise and to expand exports of higher quality footwear that competes more directly with U.S. production. Such incentives tend to undermine the efforts of U.S. firms to remain competitive when protection is removed.

TABLE 3-2.—*Manufacturing sector indicators: Nonrubber footwear, 1973-84*

Year	Import penetration (percent)[1]	Output (millions of pairs)	Employment (thousands)[2]	Productivity (1977=100)[3]	Average weekly earnings (dollars)[4]	Profitability (percent)[5]
1973	18.0	490.0	183	98.5	103.09	([6])
1974	17.8	453.0	172	96.8	106.43	([6])
1975	20.7	413.1	158	101.3	113.34	([6])
1976	22.8	422.5	164	102.1	121.97	([6])
1977	23.4	418.1	157	100.0	127.37	([6])
1978	32.5	418.9	158	102.5	138.38	([6])
1979	34.4	398.9	149	100.2	148.06	([6])
1980	30.9	386.3	144	99.1	161.33	29.8
1981	31.3	372.0	146	95.6	174.97	31.4
1982	37.2	359.1	135	97.3	179.71	27.5
1983	41.6	344.3	126	102.0	190.77	29.4
1984	49.8	298.5	116	([6])	196.02	18.2

[1] Imports as percent of manufacturers' shipments plus imports minus exports; based on value data; 1984 estimated.
[2] All employees; establishment data.
[3] Output per hour of all employees.
[4] For production workers.
[5] Net income before taxes as percent of net worth.
[6] Not available.

Sources: Department of Commerce (Bureau of the Census), Department of Labor (Bureau of Labor Statistics), and International Trade Commission.

With respect to the most recent footwear cases brought in 1984 and 1985, domestic output again has fallen. The reduction in domes-

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tic capacity has been quite responsive to market signals; the return on operations for those still in the industry more than matched the return on equity in all manufacturing. Protectionism may raise the return to these successful producers, but it seldom results in the reopening of outmoded plants that already have closed.

Trade intervention has become an increasingly expensive way of attempting to save jobs in the footwear industry. As imports account for a larger share of the market, quotas that drive up import prices are more likely to result in large increases in profits for foreign producers than for domestic producers.

In summary, the President's decision to deny relief to the footwear industry recognized that its contraction represents an adjustment to world market forces that are not a temporary but a permanent source of competitive pressure. Any efforts to reverse this process would be exceedingly expensive for American consumers and at the same time would deny market access to many debt-ridden developing countries. The Administration is committed to effective use of Section 201 provisions, but only where that use can be expected to promote successful adjustment and further the national interest.

STEEL

Several bilateral export restraint agreements were negotiated with foreign steel producing countries in 1985 as part of the President's steel plan. An earlier agreement with the European Community (EC) covering finished steel was renegotiated, but the United States unilaterally imposed import quotas on semifinished steel from the EC. These steps were the latest in a series of trade actions involving the steel industry.

Over the 1970s, steel production facilities in the United States and Europe became increasingly outmoded relative to those in Japan and other recent entrants in the market. Many European governments intervened with large infusions of funds to restructure their domestic industries. The U.S. industry was partially insulated from the effects of growing world capacity as the result of a boom in steel demand in 1974, the depreciation of the U.S. dollar, and various protective schemes: voluntary restraint agreements to limit the quantity of imports and a trigger price mechanism to prevent foreign dumping of steel in the U.S. market at prices below costs of production.

As shown in Table 3-3, import penetration in the 1970s remained significantly below subsequent values in the 1980s. Since the mid-1970s, real gross investment declined, as investors apparently anticipated greater profits elsewhere in the economy. At the same time, wages rose very rapidly, at an average annual rate of 10 percent over the decade, and in relative terms increased from 45 percent above all

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U.S. production workers' average weekly earnings in 1969 to 95 percent in 1979. Growth in labor productivity was less than the manufacturing average, and from 1973 to 1979 productivity rose at less than one-tenth of 1 percent a year. The sharp rise in unit labor costs suggests why the industry's competitive position did not improve over the decade, in spite of dollar depreciation and measures to restrict imports.

TABLE 3-3.—*Manufacturing sector indicators: Steel, 1965-84*

Year	Import penetration (percent)[1]	Output (millions of short tons)	Apparent consumption (millions of short tons)[2]	Employment (thousands)[3]	Productivity (1977=100)[4]	Average weekly earnings[5]		Real gross investment (millions of 1982 dollars)[6]	Rate of return on equity (percent)[7]
						Dollars	Ratio to total private nonagricultural		
1965	(8)	92.7	100.5	657	87.5	140.90	148	4,980	(8)
1966	(8)	90.0	99.0	652	89.2	144.73	146	5,210	(8)
1967	(8)	83.9	93.7	635	86.4	143.51	141	5,540	(8)
1968	(8)	91.9	107.6	636	89.5	154.16	143	5,630	(8)
1969	(8)	93.9	102.7	644	90.0	166.03	145	4,860	(8)
1970	7.8	90.8	97.1	627	87.6	166.40	139	4,150	(8)
1971	9.8	87.0	102.5	574	91.9	177.80	140	3,040	(8)
1972	9.6	91.8	106.6	568	97.3	206.25	151	2,470	(8)
1973	8.1	111.4	122.5	605	106.6	229.77	158	2,820	(8)
1974	10.6	109.5	119.6	610	106.5	258.95	167	4,000	17.0
1975	10.6	80.0	89.0	548	93.3	274.13	168	5,390	10.9
1976	9.0	89.4	101.1	549	99.0	305.88	174	5,090	9.0
1977	10.8	91.1	108.5	554	100.0	338.58	179	4,380	3.6
1978	11.4	97.9	116.6	561	108.3	389.69	191	3,670	8.9
1979	10.4	100.3	115.0	571	106.9	428.89	195	4,140	8.8
1980	10.9	83.9	95.2	512	102.9	448.77	191	4,050	9.0
1981	13.8	88.5	105.4	506	112.0	509.04	199	3,700	11.5
1982	16.8	61.6	76.4	396	90.9	505.97	189	3,780	−14.5
1983	12.3	67.6	83.5	341	116.8	509.16	181	3,200	−17.4
1984	16.7	73.7	98.9	334	132.0	527.39	179	3,440	.6

[1] Imports as percent of manufacturers' shipments plus imports minus exports; based on value data.
[2] Manufacturers' shipments plus imports minus exports.
[3] All employees; establishment data.
[4] Output per hour of all employees.
[5] For production or nonsupervisory workers.
[6] Expenditures for new plant and equipment.
[7] Profits after taxes as percent of average stockholders' equity for the year.
[8] Not available on same basis as for later years.

Sources: Department of Commerce (Bureau of Economic Analysis and Bureau of the Census), Department of Labor (Bureau of Labor Statistics), and International Trade Commission.

A countervailing duty case brought against several European steel producers in 1982 was an important application of the GATT subsidies code to address the competitive effects of European government assistance programs. A Department of Commerce investigation disclosed large subsidy margins for several nationalized producers. However, the United States did not impose countervailing duties and agreed to the European request for a negotiated settlement. The EC was thereby able to allocate U.S. market shares to member countries consistent with its own restructuring plan. The subsequent limitations on Europe's market share were intended to reduce the ability of subsidized imported steel to drive down prices in the U.S. market. To the extent that U.S. prices rose, they benefited not only U.S. pro-

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ducers, but also foreigners able to sell in the U.S. market. Although the volume of European sales declined, each ton would be sold at U.S. market prices and not at lower world prices. However, increased sales by uncontrolled suppliers would limit the extent of this U.S. price increase.

Total U.S. demand for steel has fallen considerably since 1979, as more products are designed to require less steel, and patterns of demand have shifted away from traditional products requiring relatively more steel toward electronically based capital goods and consumer products requiring less steel. Controlling European sales alone has not been sufficient to avoid substantial declines in domestic output and employment. The President rejected the relief proposed by the ITC in a Section 201 case in 1984. Instead, the Administration negotiated voluntary export restraints with 16 countries based on the stated goal of limiting imports of unfairly traded steel and preventing diversion of steel to the United States from other markets. Several countries have requested such agreements to ensure themselves a share of the U.S. market and to obtain immunity from unfair trade actions. These agreements will expire in 1989.

The U.S. steel industry continues to contract. Some diversification into other areas, such as oil and gas, has occurred. Traditional integrated producers have been challenged not only by imports but also by domestic minimills. The emergence of minimill producers, who generally roll particular finished steel products from semifinished steel, indicates that U.S. producers may be more competitive in some stages of steel production than in others. The below-average returns reported by large integrated producers suggest that their retrenchment and diversification are appropriate. The extent of industry contraction will be influenced not only by the reduction in steel usage, but also by the behavior of U.S. costs of production. Labor productivity has risen sharply since 1982. Recent moderation in wage demands and flexibility over work rules will contribute toward a less severe contraction of the domestic industry. Progress in these areas will be critical if the domestic industry is to adjust successfully by the termination of the President's steel plan.

TEXTILES AND APPAREL

One of the most visible trade policy confrontations in 1985 was the passage and subsequent veto of the Textile and Apparel Trade Enforcement Act. In 1986 the renegotiation with foreign countries of current export restraint agreements will be especially significant.

U.S. trade in textiles and apparel has been governed for many years by an extensive set of bilateral quota agreements. These two industries receive protection under the MultiFiber Arrangement

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(MFA), a multilateral agreement that can be traced back to the 1950s and is scheduled to be renegotiated in 1986. Production in both industries has risen above its past cyclical peak, as shown in Table 3-4. In 1983 and 1984, profitability in the textile industry rose substantially to a level comparable to that of all manufacturing. Both industries have received considerable public attention due to declining employment, which is attributable primarily to sharply rising labor productivity rather than to a decline in output. Over the period 1974 to 1982, output per hour worked rose 4.4 percent annually in textiles, 2.9 percent in apparel, and 2.0 percent in all manufacturing. The growth in labor productivity has coincided with higher total multifactor productivity, a measure of output per unit of combined capital and labor inputs. The capital stock has declined from its 1978 peak. Investment in new equipment appears to embody more productive technologies that have allowed output to grow even as labor and capital input requirements fall. Any policy to slow down this rate of technological change would tend to result in a less competitive domestic industry.

TABLE 3-4.—*Manufacturing sector indicators: Textiles and apparel, 1973-84*

Year	Import penetration (percent)[1]		Real output (billions of 1982 dollars)[2]	Employment (thousands)[3]	Productivity (1977=100)[4]		Real net capital stock (billions of 1982 dollars)[5]	Textiles: Rate of return on equity (percent)[6]
	Textiles	Apparel			Textiles	Apparel		
1973	4.5	7.1	30.5	2,448	80.2	89.1	26.0	([7])
1974	4.3	7.6	28.2	2,328	80.7	88.5	26.8	8.0
1975	3.6	8.3	27.3	2,111	89.6	94.5	26.6	4.3
1976	3.8	10.3	31.0	2,237	91.8	94.5	26.5	8.0
1977	3.7	10.0	34.4	2,227	100.0	100.0	26.7	8.6
1978	4.3	12.1	35.1	2,231	102.3	104.2	26.9	11.5
1979	4.1	12.4	35.7	2,189	104.8	98.1	26.8	12.0
1980	4.3	12.9	36.2	2,111	104.7	97.3	26.7	8.5
1981	4.9	13.8	36.1	2,067	106.6	103.6	26.3	9.5
1982	4.6	13.9	33.7	1,911	113.7	111.0	25.6	6.9
1983	4.7	15.4	37.3	1,905	([7])	([7])	24.6	12.0
1984	6.1	20.2	38.5	1,943	([7])	([7])	24.3	11.2

[1] Imports as percent of manufacturers' shipments plus imports minus exports; based on value data; 1984 estimated.
[2] Real gross domestic product.
[3] All employees; establishment data.
[4] Output per hour of all employees; based on unpublished data from Bureau of Labor Statistics.
[5] End of year. Based on data to be published in *Survey of Current Business.*
[6] Profits after taxes as percent of average stockholders' equity for the year.
[7] Not available on same basis as for later years.

Sources: Department of Commerce (Bureau of Economic Analysis and Bureau of the Census) and Department of Labor (Bureau of Labor Statistics).

Industries seeking import relief generally prefer quotas, such as the MFA provides, rather than tariffs. The protective effect of a quota is less likely to be offset by dollar appreciation or declining domestic cost competitiveness. Nevertheless, imports still can surge rapidly over a short time period, as textiles and apparel imports did in 1983 and 1984, for several reasons. Quotas may not be binding initially, not all product categories from a controlled country may be covered,

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not all countries may be controlled, or not all substitute fibers may be controlled. In the case of the MFA, a source of uncertainty has been the rapid growth of sales by the EC and Canada, which are not controlled. The United States does not face quotas in their markets either and as recently as 1980 was a net exporter of textiles.

In spite of the apparent ease of expanding imports in recent years, even from countries controlled by the MFA, foreign traders have been willing to pay increasingly more for the right to export to the U.S. market. In Hong Kong, where quota rights are sold openly, the average cost of acquiring an expanded quota for apparel products was estimated in early 1984 to be equivalent to a 47 percent tariff, whereas a comparable figure in 1982 was 10 percent. The gap between U.S. and world prices is even larger than this, because foreign exporters also face an average U.S. statutory tariff on apparel of 21 percent. Nevertheless, in 1985 legislation to tighten further import restrictions on textiles and apparel became a focal point for protectionist action in the Congress. The bill sent to the President would have rolled back imports by roughly 5 percent and stringently controlled future import growth.

The President vetoed this bill because of the high additional costs it would have imposed on consumers, and because of the offsetting negative effect on U.S. exports, a particular concern if retaliatory foreign trade barriers are imposed. The rollback probably would have resulted in consumers paying an extra $4 billion to $8 billion in 1986 for apparel and textile products. By breaking bilaterally negotiated agreements reached under the MFA, the rollback would have subjected the United States to demands for compensation or retaliation. For example, when the United States tightened its rules for determining the country of origin of imports in 1984, the Chinese stated that they were reducing purchases of U.S. agricultural exports in retaliation.

A tightening of trade restrictions would have raised international political pressures on the United States. In a situation where market shares are allocated on political grounds rather than on the basis of economic efficiency, countries with high-cost producers tend to lobby for control over sales that they otherwise could not make in an open market. Countries with low-cost producers tend to complain that their competitive strength is being arbitrarily eliminated by administrative fiat. Countries that already have a large established share of the market benefit from a system that allows them high returns from selling at prices in the United States that are above world market levels. Yet, in a competitive market they might be displaced by the expansion of more efficient countries and emerging new competitors. Any U.S. action leaves current or prospective quota holders displeased without benefiting U.S. consumers.

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Several trade actions affecting the semiconductor industry were initiated in 1985. U.S. producers filed two antidumping cases against Japanese firms, and the Federal Government initiated another case. These cases address unfair pricing practices in the U.S. import market. Broader policy concerns regarding U.S. access to the Japanese market have been considered in one of the four bilateral U.S.-Japan market-oriented sector-selective talks initiated in early 1985 and in an unfair trade case brought by the domestic industry under Section 301 of the Trade Act of 1974. Market access in Japan is important because the competitive position of U.S. semiconductor producers depends upon their total volume of sales, over which large research and development expenditures are spread and which allow greater efficiencies in production. These various trade actions raise important issues relevant to carrying out government policy in this and other high-technology industries.

An antidumping case can be based on two alternative conditions: either foreigners are selling at a lower price in the U.S. market than in their own domestic market, or foreigners are selling at a price less than cost, specifically less than average total cost. Japanese practices do not seem to fall in the first category, as semiconductor prices reported in Japan are lower than in the United States. Rather, Japanese practices appear to reflect very rapid price cutting to promote greater sales volume, even if it may mean selling at a loss. Such a strategy potentially could be economically advantageous to Japanese firms if they could drive U.S. competitors from the market permanently and then raise prices collusively. It would also be advantageous to vertically integrated firms if success in semiconductor production allowed more timely development and introduction of other products.

The antidumping cases will address several challenging conceptual issues. Large research and development expenditures account for a significant share of product value and must be allocated over expected production. This cost calculation requires an estimate of the length of the relevant product cycle and prospective volume of production. The role of likely reductions in variable costs, as firms gain more production experience, must also be recognized.

If the Department of Commerce finds that positive dumping margins exist, and if the ITC rules that the domestic industry has been injured, antidumping duties will be levied. Higher Japanese prices in the U.S. market would tend to reduce their exports to the United States. Depending on demand and cost conditions, the profitability of Japanese producers could decline, too.

The ability to prevent pricing below cost in the U.S. market may not eliminate the competitive effects of alleged Japanese dumping. If

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Japanese producers maintain lower prices in markets outside of the United States, a price differential between U.S. and world markets may cause U.S. users of semiconductors to locate operations offshore to take advantage of cheaper inputs. U.S. users of semiconductors are concentrated in the following sectors: data processing and office equipment (62 percent); consumer electronics (23 percent); communications equipment (8 percent); and testing and analytical instruments (5 percent). These users appear more likely to be hurt by higher input costs and more likely to shift production offshore than would minor users such as automobile producers. The effect of U.S. antidumping actions on the profitability of Japanese firms will depend not only on the availability of substitute products within the U.S. market but also on the likelihood that U.S. users maintain production in the United States. When alternative supplies are available domestically and U.S. users find offshore production economically unattractive, Japanese semiconductor profitability is more likely to fall and the capacity of Japanese firms to contract.

Other policy initiatives center on greater U.S. access to the Japanese market. The Section 301 case brought by the U.S. industry alleges that access has been denied as the result of horizontal collusion and buying practices among Japanese companies that have participated in government-coordinated research programs. The United States traditionally has sought greater access to sell in foreign markets, but not a mandated share of the market. Measuring progress toward more open markets, however, must be tied to some change in the current level of sales. If a satisfactory negotiated settlement of the Section 301 case is not reached, some observers have advocated prompt U.S. retaliation. Such actions are likely to result in higher semiconductor prices in the United States, thereby reducing the competitiveness of U.S. user industries. Therefore, if retaliation were considered appropriate, an important aspect of designing a response would be to determine in which products Japanese producers were most dependent upon sales to the U.S. market, but any resulting price disadvantage facing U.S. users would be small.

AGRICULTURAL EXPORTS

A particularly relevant agricultural trade policy issue is the establishment in 1985 of the export-enhancement program to promote U.S. commodity sales abroad. The possible consequences of this policy are also relevant in evaluating other efforts to subsidize U.S. exports on a permanent basis. Most significantly, subsidies generally can be expected to result in a loss in U.S. income, because foreign consumers benefit from the willingness of taxpayers to underwrite foreign sales on more favorable terms.

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The responsiveness of foreign output to rising world market prices of agricultural commodities in the 1970s and the appreciation of the U.S. dollar in the 1980s mean that U.S. agricultural exports now face considerably more competition. EC export subsidies have helped European producers claim a larger share of world wheat markets. Domestic political support for higher U.S. target prices and loan rates has resulted in increased government acquisitions of commodities. Some of these commodity stocks have been released through the export-enhancement program established in 1985. This approach was extended further by the recently signed Food Security Act of 1985, which requires that, through September 1988, the Secretary of Agriculture use $2 billion of agricultural commodities and products to provide export assistance.

Under the export-enhancement program, the government has made stocks available to U.S. exporters to increase the competitiveness of U.S. commodities. If such a policy could impose sales losses on exporting countries that subsidize their sales to gain a larger share of world markets, then it might force these countries to reduce their export subsidies. A targeted subsidy program, however, is particularly difficult to contain when the product being subsidized is homogeneous and sold in world rather than national markets. Sales in one market may be gained at the expense of a particular country; however, that foreign output may be diverted to other markets, once again displacing U.S. sales. If the export-enhancement program results in a larger total supply of wheat, for example, being offered on world markets, the price would fall for all exporters, not just the offending subsidizer. Net importing countries, such as the U.S.S.R., clearly would benefit from falling world prices. From the U.S. standpoint, greater sales under the enhancement program are likely to displace commercial agricultural sales to some extent.

Achieving some change in foreign subsidization practices is critical to the success of the program. Even committing all U.S. assistance to trade in a single commodity, wheat, would augment world trade by only 5 percent. The resulting pressure on the EC might be insufficient to cause a reduction in their subsidies. In that case, the United States benefits only if there are few alternative uses for the resources being given to foreigners on preferential terms. Given the uncertain success of this approach, the President has indicated his desire to work with the Congress to amend this legislation and to continue Administration efforts multilaterally to obtain a negotiated solution to limit agricultural subsidies.

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POLICY INITIATIVES FOR THE 1980s—FREE AND FAIR TRADE

The President's Trade Policy Action Plan is based on the concept of free and fair trade. The guiding principle behind this policy is that opening foreign markets to enable greater U.S. sales is preferable to closing U.S. markets to foreigners.

BROADENING THE SCOPE OF FREE TRADE

An important goal of the President's Trade Policy Action Plan is to begin a new round of Multilateral Trade Negotiations under the auspices of GATT. The United States requested a meeting of the contracting parties of GATT, which took place in September, to begin the preparatory process. In November the parties established a preparatory committee to develop a timetable and an agenda for a new round of trade negotiations. The preparatory committee's work is expected to be discussed at a September 1986 GATT Ministerial Meeting.

U.S. objectives in the new round center on extending GATT discipline to areas where international rules are limited or nonexistent. Additionally, the United States seeks changes in the current operation of the GATT system in dispute settlement and conditions governing safeguard actions. Areas of particular interest are agriculture, services, intellectual property rights, and direct foreign investment.

Agricultural trade is of special interest to the United States because of this country's traditionally strong export position in a sector that largely falls outside of GATT control. In particular, agriculture is not included in the subsidies code on the same basis as manufactured goods. Rather, export subsidies are a cause for complaint only if they allow the subsidizing country to gain more than an equitable share of the world market or if subsidized products are priced significantly below those of other suppliers. Such vague standards often preclude any action under GATT.

Trade in services is growing rapidly. Many activities fall in this category—tourism, transportation, insurance, banking, advertising, engineering design, data processing, and the transmission of information. The United States has a comparative advantage in providing many services due to the availability of a skilled work force and a high rate of innovation to serve the large domestic market. A U.S. goal is to establish the right of entry in foreign markets and also to establish the principle of national treatment or nondiscrimination against foreign providers of services. Trade in many services is subject to government regulatory control. Agreement is needed regarding the transparency and reasonableness of regulations, as well as the appropriate role for government monopolies. Under conditions of limited

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market access and inconsistent national standards and regulations, the world economy loses from small-scale, inefficient operations designed to serve single-country markets.

The protection of intellectual property is of growing importance to the United States. U.S. research creativity has resulted in the successful introduction of many new products and processes. When foreign producers can copy these innovations with impunity, the rewards to innovation decline and the pace of technical change slackens. A priority for the U.S. Government is to establish wider international agreements protecting intellectual property. Some U.S. concerns deal with the lack of patent, copyright, trademark, and trade secret protection or compulsory licensing provisions. Others center on the right to charge royalties payable in convertible currencies. Basic ground rules tend to be lacking in these areas, especially in countries that feel little need to protect domestic innovation.

U.S. goals regarding direct foreign investment center on reducing the distortions to world trade and production arising from conditions frequently placed on such investment by foreign countries. Foreign requirements that a certain percentage of output use locally produced inputs or that a certain share of output be exported distort patterns of international trade, just as other trade barriers do. Performance requirements can impede the flow of investment to foreign countries, a result also observed when national treatment is not granted foreign firms. As discussed in Chapter 2, developing the private sectors of these countries is an important step to improving their prospects for renewed growth.

If more traditional multilateral steps are unsuccessful, the United States also will explore other ways of opening markets. In 1985 the United States concluded negotiations with Israel to establish a bilateral free trade area. The United States now faces a historic opportunity in the possibility of establishing a free trade agreement with Canada. In September 1985 the Canadian Government proposed that both countries consider bilateral negotiations on the broadest possible package of mutually beneficial reductions in trade barriers. In 1935 Canada and the United States took bilateral steps to reverse the protectionism of that era, steps that became a catalyst for broader international cooperation then. The new Canadian-U.S. initiative offers similar prospects now.

ENSURING THE PRACTICE OF FAIR TRADE

Another important objective of Administration trade policy is to ensure that markets remain open and that competition takes place under internationally agreed trading rules. Countries should be expected to live up to their international commitments regarding

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market access. The Administration has increasingly emphasized the standard of fair trade, because reduced market access generally reduces the profitability for U.S. exporters, worsens the U.S. terms of trade, and results in a lower U.S. standard of living.

Presidential Involvement in Section 301 Cases

One example of the Administration commitment to fair trade is the self-initiation since September 1985 of four cases against unfair foreign trade practices under Section 301 of the Trade Act. Deadlines for action were set in two other cases. Although the affected industry traditionally petitions to initiate action, a demonstration of official U.S. concern is necessary in particular instances.

The two cases in which the President set a deadline involved EC subsidization of canned fruit and Japanese quotas on leather and leather footwear. GATT panels had already supported the U.S. position. The EC blocked adoption of the panel report and Japan failed to bring its practices into conformity with GATT practice. Presidential involvement indicates the need to move beyond the current dispute-settlement procedures that allow such inaction and delay.

In the case of canned fruit, the EC agreed to a substantial reduction in its domestic subsidy program, a solution that completely avoided the need for compensation or retaliation. In the case of leather and leather footwear restrictions, Japan agreed to compensatory tariff reductions over a broad range of products. The Japanese made concessions in two sensitive areas, paper and aluminum, where the United States particularly had sought broader market access. The Administration will monitor trade in these areas to verify that these concessions will not be impaired by other government actions. Also, the United States retaliated against Japanese leather and leather footwear sales to the United States by imposing an additional 40 percent tariff on them.

Broader retaliatory measures had been considered for implementation if meaningful market access were not obtained. In such cases, U.S. objectives are best met by choosing retaliation targets where many competitive sources of supply exist and where the offending country is especially dependent upon sales to the U.S. market. If such retaliatory actions are likely to become permanent, then the appropriate tariff is one that will not eliminate the offending country from the market entirely. Rather, the tariff will drive down the price received by the foreign country on sales in the United States and raise U.S. Government tariff collections.

The government-initiated Section 301 cases include Brazilian measures to prevent foreign competition in its information industries, Korean restrictions on the operation of foreign insurance companies, Japanese controls over investment in and distribution of to-

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bacco products, and Korea's lack of patent and copyright protection. An additional possible case, directed at Taiwanese restrictions on wine, beer, and tobacco sales, was resolved through negotiation. The United States initiated a GATT case to consider European wheat export subsidies rather than start a Section 301 investigation.

Unfair practices often extend beyond issues directly covered by GATT. However, U.S. actions embody the principle that nations benefiting from the current trading system have an obligation to apply to other areas of international commerce the spirit of open trading relationships established for merchandise trade. Negotiated settlements appear possible in some areas as like-minded nations recognize their own self-interest in moving toward a more open world economy with predictable, transparent rules of conduct.

Export Credit Competition

An Administration goal is to reduce export credit competition, a costly policy that distorts commercial trade patterns. Significant progress has been achieved in recent years. Through an agreement reached in November 1983 among countries of the Organization for Economic Cooperation and Development (OECD), minimum allowable interest rates have been established with respect to official export financing. The rates vary, based on the country destination of an export sale. This progress has reduced the need for a greater permanent commitment of funds to finance U.S. exports through the Export-Import Bank.

Foreign practices still distort export markets through export tied-aid credits, a situation where an exporting country grants foreign aid to make a commercial sale. In the past 2 years, agreements have been reached to ban tied-aid sales in the case of nuclear power plants and large-bodied aircraft. The Administration seeks further progress to cover all sales. Subsidization of these sales largely benefits the purchasing countries and involves negligible expansion of the market. In particular, a significant share of these tied-aid credits is received by middle-income developing countries that can usually finance these purchases on commercial terms. The Administration objective is to obtain international agreement that such tied-aid sales be limited to truly needy countries. The President has proposed an export credit fund to be used strategically against countries that thus far have been unwilling to negotiate limits on the use of such subsidies. The fund is intended to support an aggressive U.S. stance to deny export sales, or significantly raise the cost of making them, for noncooperative nations and thereby encourage these nations to agree to effective limitations on the use of tied-aid credits.

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PROMOTING ADJUSTMENT TO CHANGING TRADE PATTERNS

Another important aspect of Administration trade policy involves the adjustment and reemployment of workers in trade-impacted industries. Strong U.S. performance in generating more jobs has been discussed above. A clear goal of Administration adjustment policies is to increase the likelihood that workers displaced in declining industries will share in the general expansion of the economy. This focus contrasts with the consequences of protection, which reduces overall job opportunities and thus worsens the prospects of workers actually displaced by rising imports.

Sound macroeconomic policy to ensure noninflationary growth is the first prerequisite of a successful adjustment policy. Other measures are likely to be unsuccessful if applied under recessionary conditions. Similarly, as discussed in Chapters 1 and 2, policies that promote labor market flexibility give employers a greater incentive to hire new workers.

An Administration goal is to create conditions for sustained growth that will attract workers out of declining industries. Other job opportunities are most attractive when relocation is not necessary, a condition more likely to be fulfilled in States with low unemployment rates. Many trade-impacted industries are located in such States. For example, Maine, Massachusetts, and Missouri are important shoe-producing States, yet each has a below-average unemployment rate and exhibits strong growth in aggregate employment. A similar situation exists in South Carolina and North Carolina, dominant textile-producing States.

The prospects for successful adjustment are greater in strong labor markets. Still, adjustment for many workers may be difficult. Displaced workers who are immobile may face high personal costs of adjustment if local labor markets are depressed. Under those circumstances, a worker's past job skills may be of little value. Prospects for adjustment are sometimes misinterpreted. The initial costs associated with retraining, relocating, or accepting a lower wage job are immediate, while the likelihood of increased earnings in future years may seem uncertain. Research indicates that even in severe cases of dislocation, earnings tend to recover in 3 to 5 years to the level they would have reached in the worker's previous job. These figures do not apply to workers who leave the labor force, nor do they control for changes in fringe benefits. Nevertheless, many dislocated workers make successful labor market adjustments.

Trade Adjustment Assistance (TAA), originally established under the Trade Expansion Act of 1962 and later modified in 1974 and 1981, is intended to promote adjustment of workers in import-impacted industries. The TAA system of readjustment allowances,

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which expired on December 19, 1985, was based on an extension of unemployment insurance benefits. One rationale for such payments was that they provided partial income maintenance to those workers having the greatest difficulty finding alternative jobs. Yet, these payments also may have retarded adjustment. Benefit payments based on continued unemployment provide an incentive to delay seeking a new job and to wait for recall to the previous job. These expectations may be inappropriate, given changing patterns of production and competitiveness internationally.

The Administration has advocated continued funding of dislocated worker programs under Title III of the Job Training Partnership Act (JTPA) as a replacement for TAA. JTPA does not provide income-support payments to individual workers, but relies on local private industry councils, composed of business, labor, and local government representatives, to determine the most effective adjustment measures for dislocated workers. Also, rather than distinguish which workers are displaced by greater imports and which are displaced for other reasons, a procedure required under TAA, JTPA is intended to encourage adjustment by all dislocated workers. In his 1987 Budget, the President has requested that the Secretary of Labor be provided an additional $74 million of discretionary JTPA funds in 1986 to address particular priority adjustment problems. For 1987, $100 million is requested for that purpose. In recent trade cases involving steel, copper, and nonrubber footwear, the President has also charged the Secretary of Labor to use JTPA resources to promote the retraining, relocation, and reemployment of displaced workers.

Early experience under Title III of JTPA appears promising. Short-term job search assistance can be implemented quickly. Program participants have been committed to making job changes. JTPA does not focus exclusively on training, because that approach is not needed by many experienced workers and is not the most cost effective for them. Experience has demonstrated the difficulty of ensuring that government-provided training results in a long-term increase in worker earnings. A recent review of the record for steelworkers assisted under TAA reports that only a fourth of the workers who chose to retrain found jobs related to their training. This result indicates the difficulty of designing effective training programs and also the potential problems of making income-support payments contingent upon participation in training programs.

An inference that can be drawn from past experience is that no single program or approach can be counted on to succeed uniformly in promoting adjustment in all industries and locations. Experience under a variety of Federal policies has been mixed, often because these programs have other objectives in addition to effective adjust-

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ment. From the standpoint of promoting successful economic adjustment, strong economic growth should be the principal goal of Federal policy.

THE THRUST OF U.S. TRADE POLICY

Government management of trade through protectionism will not solve problems that result from international macroeconomic imbalances. It will not recapture jobs lost to rising productivity. At the factory level, its dominant effect will be to shift burdens from one industry to another. Protectionism is likely to penalize U.S. export industries in particular, for they are the most vulnerable to foreign retaliation.

The United States has a strong self-interest in advocating and practicing free and fair trade. This is the course that the President has set for the Nation.

The United States seeks a major transformation of the world trading system, strengthening GATT discipline and extending it to many areas not presently addressed. If multilateral steps are taken to reduce existing trade and investment barriers, all countries will have to agree to politically sensitive changes in some of their current practices. Initial progress toward the opening of a new round of multilateral trade negotiations is encouraging. However, significant advances will occur only if world leaders place a high priority on trade liberalization and pursue economic policies that generate support for it.

Another important dimension of the Administration's trade policy is vigorous enforcement of trade laws and agreements. Unfair foreign practices are especially detrimental to U.S. export prospects. The Administration has aggressively used Section 301 of the Trade Act of 1974 against unfair foreign practices. Although these actions should result in greater U.S. exports of specific commodities and services, they will not, of course, eliminate the current trade deficit. That will depend on appropriate macroeconomic policies being followed. Rather, the purpose of recent U.S. trade actions is to hold all parties to their commitments to free and fair trade principles.

The world today is not static or unchanging. The world daily produces situations that Adam Smith never envisioned. But the accuracy of his policy prescriptions endures. A return to the mercantilist dogma that imports weaken an economy is likely to result in policies that yield slower growth, a lower standard of living, and lost opportunities for current and future generations of workers. The Administration program of free and fair trade provides a strong basis for continued economic expansion in the United States and the world.

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