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TRADE REORGANIZATION PLANS

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL TRADE

OF THE

COMMITTEE ON FINANCE

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TUESDAY, FEBRUARY 21, 1984

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL TRADE,
COMMITTEE ON FINANCE,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:35 a.m., in room SD-215, Dirksen Senate Office Building, Hon. John C. Danforth (chairman) presiding.

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

[The press release announcing the hearing and the statements of Senator Danforth, Senator Roth, and Senator Moynihan follow:]

[Press Release No. 84-112]

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 Govenmental 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 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 CHAIRMAN JOHN C. DANFORTH

Supporters of a Cabinet department for trade invariably begin with pronouncements on the importance of trade to the U.S. economy or with discourses on America's trade problems. I do not take issue with either of these sentiments. I do not take issue with the conclusion that a Department of Trade and Industry (DITI) would improve our position in international trade. The current trade structure of our government is by no means perfect. But the "DITI" proposal would only make it worse.

Proponents of the reorganization proposal argue that trade must be a "priority" for the United States. They maintain that a Cabinet-level Department of Trade would increase the status of trade in our government and would "send a signal" at home and abroad about the importance of trade. What DITI proponents cannot explain is how replacing a White House trade agency of 130—headed by an Ambassador of Cabinet rank—with a departmental bureaucracy would accomplish this goal.

If substantive changes in U.S. trade policy are the objective, again DITI is not the answer. The reorganization would take several years to implement. The process itself is bound to divert attention and energy from substantive trade problems. At a time of record trade deficits, rearranging boxes on an organization chart seems a distraction.

Even if accomplished overnight, the reorganization would have little, if any, substantive impact on the trade deficit or on U.S. trade policy. Those who hope for substantive results from this reorganization should question what, if any, impact DITI would have had on the Soviet grain embargo or the pipeline sanctions, on European Community agricultural export subsidies, on Mexican investment restrictions, or, for that matter, on the value of the dollar.

No amount of bureaucratic shuffling will make a trade a national priority. The "high priority" stamp can ony be conferred by the President or the Congress. Only the President can confer a sense of status on makers of trade policy. Only the Congress can correct deficiences in trade laws.

Proponents of a trade department argue that trade policy should be made an implement under a single roof. They maintain that too many agencies are involved in trade, and then go on to argue that the merger of the "two-headed monster" (Commerce and the U.S. Trade Representative) can rationalize the process.

Such an approach is impractical. More than two decades ago the Congress recognized that virtually all government agencies have, and will continue to have, a legitimate interest in the formulation of U.S. trade policy. For this reason, Congress created the White House post of Special Representative for Trade Negotiations to Chair an inter-agency committee to make and negotiate U.S. trade policy. At that time Congress decided not to leave the chairmanship of that committee to one of the agencies represented on it—thereby ensuring that American agriculture, industry, labor and consumers would all have a fair say in U.S. trade policy.

While the DITI proposal may well combine the trade policy-making and implementation functions of the USTR and the Department of Commerce. it ignores the trade roles of any number of other agencies: The Agriculture Department still would run its own trade programs. The Customs Service still would be part of Treasury. Labor still would be responsible for Trade Adjustment Assistance. Defense still would have an export control function. State and Treasury still would dominate summitry and key U.S. positions at the OECD and the IMF.

The "monster" has at least seven heads. Eliminating the one that is supposed to guide the others cannot be justified as an effective management practice.

Contrary to the claims of DITI proponents, the rest of the world is not blessed with unified Departments of Trade and Industry. The example most often cited—that of Japan's MITI—neglects the fact that Japan's Foreign Ministry has responsibility for trade agreements. Japanese tariff decisions, particularly those affecting alcohol and tobacco, are controlled by the Ministry of Finance. The Ministry of Agriculture would no sooner allow MITI to dominate agricultural trade policy than would NTT allow MITI to gain control of the Japanese telecommunications system. Ironically, as Japan's trade problems have mounted, it is the Office of the Prime Minister that has taken on an ever-increasing role in trade.

Since the entire U.S. government cannot be folded into a Department of Trade, leadership and policy coordination from the top are inevitable. Ironically, the reorganization plan provides for "a small White House staff to handle trade issue coordination." If tnis is not to mean the recreation of the USTR, then one must assume that turf fights never occur between the NSC and the Department of State.

More disturbing than the plan's inability to combine trade policy and implementation is its implication for those trade interests not represented by today's Department of Commerce.

Congress intended the USTR to play the role of "honest broker"—brokering the often divergent—but no less legitimate—concerns of its constituent agencies in inter-agency debate.

A DITI with the lead role in making U.S. trade policy may well opt for actions that satisfy only its immediate constituency—industry. Labor's interests may or may not receive adequate consideration. Agricultural interests, in particular, could suffer should DITI become a clotheshorse for protectionism. The same could be said of the growing U.S. service sector.

Alternatively, those who say that a DITI could weigh varied trade interests "in-house" or through the inter-agency committee it would dominate, could well see industry lose the pro-business advocacy role the Department of Commerce should now play in inter-agency debates.

Some proponents of reorganization argue that a Department of Trade and Industry would enable the U.S. to coordinate domestic economic policies with trade policy. Others argue that a department could coordinate international economic policies with trade policy.

Whether the objective is enhanced competitiveness or more favorable exchange rates, DITI would no more be in a position to determine U.S. industrial policy or international economic policy than Commerce or the USTR are able to now. The reorganization plan offers no new tools, no new authority, for either purpose. Moreover, if we really want to influence the competitiveness of U.S. industry in the world market, surely a White House coordinating agency would be better placed to influence Treasury decisions on tax policy or exchange rates or Justice antitrust policy than the Cabinet's newest equal among equals—the Department of Trade.

The related argument that bigger is better for the purpose of building a cadre of career trade professionals neglects the lessons of the status quo: The USTR is a small, elite and responsive agency made up of some 130 career professionals and a handfull of political appointees. Those who have held leadership positions there maintain that the agency's effectiveness can be attributed in large measure to the direct contact between its professionals and those at the very top. A Cabinet department made up of the USTR and various components of the Department of Commerce would have, at a minimum, 12,000 employees. By any definition, that is a bureaucracy. Regardless of the provisions made for the advancement of career professionals, such a bureaucracy would invariably be dominated by many layers of political appointees. The Secretary of Trade and his deputies would have to fight their way through layers of Under Secretaries, Assistant Secretaries, Deputy Assistant Secretaries and others before coming into contact with a professional with years of trade expertise.

Clearly, a new department that is at best the sum of its parts is no solution. While there is merit in not having two agencies negotiating with NTT in Japan, or two bilateral groups on Japanese industrial policy, or two sets of steel negotiations with Europe, or a Trade Policy Committee that overlaps a Cabinet Council on Commerce and Trade—DITI and its new inter-agency group would still have to share "turf" with the Cabinet Council on Economic Policy (CCEP) and the Senior Inter-Governmental Group on International Economic Policy (SIG/IEP). Not much of an improvement when you consider that all of this duplication could be eliminated tomorrow without any legislation whatsoever.

The basic assumption underlying the call for trade reorganization—namely, that structural change brings with it substantive change—is fatally flawed. One need look no further than the Departments of Energy and Education to find examples of governmental restructuring with little, if any, visible impact on substance.

Statement of William V. Roth, Jr., U.S. Senator

TRADE SUBCOMMITTEE HEARING ON TRADE REORGANIZATION

Mr. Chairman, the need for improved, effective trade policy is an issue upon which we can all agree. I am convinced that the first step toward accomplishing this objective is to get our domestic trading house in order.

The need for organization is clear. We are simply not organized to meet the international challenges of this decade and beyond. We're operating in the jet age with an organizational Piper Cub.

We can no longer afford to ignore this problem. During the 1970's and into the 1980's, rising foreign trade and investment flows have increased the degree of interdependence between the U.S. and global economies.

In 1970, for example, U.S. merchandise exports accounted for 4.3 percent of our gross national product and U.S. imports about 4 percent. By 1982, our exports were up to 10 percent of GNP, with imports accounting for more than 11 percent. In the investment area, as well, international flows have grown exponentially.

From 1970 to 1980, U.S. direct investment abroad grew from $75.5 billion to nearly $200 billion. Foreign direct investment in this country grew at an even faster rate, rising from $13 billion in 1970 to more than $52 billion in 1979.

Even more remarkable but certainly highly distressing, as well, has been the performance of our merchandise trade balance. This statistic went from being strongly in the black to suffering $20 and $30 billion deficits in each of the last few years.

Now we read that the Nation recorded an $18.8 billion merchandise trade deficit in the final quarter of 1983 alone. This pushed the deficit for the full year to a record $60.6 billion. This is 67 percent higher than the previous deficit of $36.4 billion in 1982. Predictions are that the deficit will top $100 billion in 1984. These figures and this performance record are not acceptable.

We must change our approach or see industry after industry fall prey to rising international competition and job after job sacrificed for foreign beggar-thy-neighbor practices.

And I am convinced that the first, most important step in this changed approach must be a revision of the organizational structure for trade within the Federal Government.

Today, no less than 25 agencies and organizations within the executive branch are engaged to a greater or lesser degree in formulating, coordinating and implementing U.S. policy on foreign trade and investment. It is no wonder there is concern here in Congress and within the private sector that our trade and investment policies may not be properly identified, adequately pursued and fully implemented.

It is no wonder we are concerned that U.S. trade policy is no policy at all. The present system has forced Federal agencies to take uncoordinated and often contradictory actions that adversely affect U.S. trade and investment flows. What we are seeing is a swamp of ineffective and conflicting ad hoc responses to an ever-growing list of foreign unfair trade practices. And, despite the best efforts of the present administration, our cabinet members are saddled with an unworkable system, a system of institutionalized bureaucratic in-fighting that has agencies arguing over turf instead of aggressively pursuing markets.

That is why I have introduced S. 121, the Trade Reorganization Act of 1983. We desperately need a restructuring of the executive branch to live up to the challenges of the 1980's and 1990's, and S. 121 meets that need well.

Under my plan, we would build a new Department of International Trade and Industry, using the Office of the U.S. Trade Representative as the core. The new department would consolidate all nonagricultural trade and investment analysis, policymaking, negotiation and implementation functions into one agency. By so doing, we would reduce duplication and contradiction in the executive branch's trade policymaking process. We would ensure follow-through on negotiations, and guarantee that our rights in domestic and foreign markets were aggressively pursued. We would have one strong voice in the cabinet, in the White House and in the international arena to articulate and act on our trade and investment priorities.

Most importantly, my proposal would not just be a futile gesture aimed at moving around the boxes that are displayed in Government operations manuals. Rather, it would be a clear sign that we intend to make trade expansion a number one national goal.

President Reagan has called for "a new priority for trade." Part of this new priority, in the President's words, is the "strangthen(ing of) the organization of our trade agencies."

I have been very pleased with the support the President has given S. 121. I am confident that with this continued support and the growing consensus for the bill in the private sector we can create the new department and let it begin its important work.

I look forward to today's witnesses and any suggestions they have for getting our international trade and investment show on the road.

STATEMENT BY SENATOR DANIEL PATRICK MOYNIHAN (D-NY)

Mr. Chairman, thank you for the opportunity to appear before you today to outline my views on international trade. In particular, I would like to discuss my legislation, S. 21, to establish a Department of Trade and Commerce, as well as the proposal advanced jointly by my colleague on this Subcommittee, Senator Roth, and the Administration to consolidate certain executive branch trade functions into a single Trade Department.

At the outset, I want to commend the Administration for recognizing what many of us in Congress have known for quite some time. That is, the organization of trade-related policy-making in our government is woefully inadequate to address our Nation's trade problems. A $60 billion trade deficit should tell us something is wrong. We need to respond by reorganizing the trade-related functions of the government in a single department, one cabinet level voice responsible for making and coordinating trade policy. And we ought to do so soon. Delay will condemn our trade policy to inaction, indecision and inertia.

That is why, on the first day of the first session of the 98th Congress, I introduced S. 21, a bill to consolidate all the trade-related functions currently performed by a host of executive departments and agencies, in a new cabinet level Department of Trade and Commerce that would supplant the current Department of Commerce.

This is a large issue and no time for making small plans. I need not elaborate on the importance of the matter to this Subcommittee. Our domestic prosperity and employment depend on a healthy international economy, a steady flow of goods, services and investment capital. The interdependence of the world economy is an essential fact around which our trade policy-making must be organized.

We have witnessed in recent years the increasing influence of international trade on the patterns and, indeed, the very health of the American economy. Every year, the nations of the world export more than $2 trillion in goods; a like amount, of course, is imported. The United States accounts for more than 10 percent of these totals. That translates into more than $200 billion worth of U.S. merchandise exports for 1983—a great amount, indeed, in light of the persistent international recession.

Exports matter. Merchandise exports accounted for approximately 4 percent of our GNP in 1973; ten years later, the figure reached 6 percent, a 50 percent jump. Fully 15 percent of the manufactured products in America, produced by more than 5 million American workers, are export-related. What is more, during the period 1977-80, four of every five new U.S. manufacturing jobs created were export-related. If you include data for service exports as well, the figures become even more impressive. According to the Administration, our trade in goods and services now accounts for more than 22 percent of our GNP.

What do these statistics tell us? First, trade is important—too important to be regulated to a secondary status, as it has in the past. Second, it is time to recognize and respond to the demands of a newly competitive world economy, and to do so in the very organization of our government. It is to this that I now turn.

For years now, we have scattered trade-related responsibilities throughout the executive branch. One only has to look at the United States Government Manual to see this. First, there are offices in eight different departments: the International Trade Administration in the Department of Commerce; the Office of the Assistant Secretary for International Affairs and the U.S. Customs Service in the Department of the Treasury; the Foreign Agricultural Service in the Agriculture Department; the State Department as well as a series of trade offices and functions in the Departments of Energy, Labor, Transportation and Defense.

Then, we also have the many and various non-departmental agencies the most important being the Office of the U.S. Trade Representative in the White House. This list also includes the Export-Import Bank, the International Development Cooperation Agency, the International Trade Commission, the Small Business Administration and the Overseas Private Investment Corporation. The list seems almost endless. In all, eight cabinet departments and six non-department agencies share responsibility for the international trade policy of the United States government.

How does this fragmented structure serve us? In a word, badly. It is true that we exported more than $200 billion in goods in 1983. But it is also true that we imported much more. Last year, we registered the largest trade deficit in our nation's history, a staggering $60.6 billion. This record merchandise trade deficit nearly doubled the previous record, set in 1982, of some $36.4 billion. In 1983, merchandise imports accounted for 6.23 percent of all the goods and services sold in the United States—up from only 2.8 percent 20 years ago. Across a wide range of industries—apparel, shipbuilding, steel, autos, farm machinery, aircraft, telecommunications equipment, and computers, to name several—America's share of both the world and the American markets has declined over the last decade.

And it's getting worse. Since January 1981, the value of our merchandise exports, adjusted for movements in exchange rates and inflation, has declined at an average annual rate of 6.7 percent. Conversely, the real value of merchandise imports over the same period has increased at an average annual rate of 3.9 percent. A similar trend appears in U.S. service exports and imports. Since January 1981, the real value of our service exports has risen by just .66 percent annually, but the real value of our service imports has jumped at an average annual rate of 11.0 percent. The U.S. has never experienced such a three-year deterioration in our trade performance since the establishment of GATT.

This sorry state of affairs promises to grow worse still. According the the President's Economic Report, submitted to the Congress earlier this month, "The deficits signify loss of income and employment in those industries that depend on exports or compete with imports." In a speech before the National Press Club on August 31, 1983, Alfred Eckes, the Chairman of the International Trade Commission, suggested how these trade deficits translate into unemployment for American workers. Every $1 billion increase in the trade deficit, he estimated, means the loss of 25,000 American job opportunities. Using the ITC's formula then, the increase in the trade deficit from $36.4 billion in 1982 to $60.6 billion in 1983 cost 605,000 Americans job opportunities; the jump from $60.6 billion on 1983 to the latest forecast of $110 billion in 1984 will mean another 1,235,000 American jobs lost—literally shipped overseas, increasing foreign employment.

I do not question the notion that the U.S., with the world's strongest economy, should help other nations, particularly less-developed ones, to grow and prosper. What I do object to, however, are policies that force our most import-sensitive industries and workers to bear the overwhelming burden of these disasterous trade deficits.

The underlying causes of our trade deficits are very complex. At issue is serious deterioration of America's competitiveness in the international marketplace and, more importantly, in the American market as well.

Data Resources, Inc., in its October 1983 Review of the U.S. Economy, presents a telling analysis of America's eroding world competitiveness. DRI pointed to the disasterous appreciation of the American dollar on the foreign exchange markets and rising costs, compared with our major trading nations, for the most important cost factors in the manufacturing process, including labor, energy and equipment.

Chief among the causes of our poor trade performance, I believe, is the sharp rise in the dollar's value, a direct consequence of misguided macroeconomic policies, those responsible for four years of record high real interest rates. These interest rates have attracted billions of francs and marks of foreign investment to dollar instruments, appreciating the dollar's value on the world's currency markets. In this way, American-made products denominated in dollars became more expensive on the world market, while foreign-produced goods denominated in francs or marks became less expensive in American markets. According to the President's Council of Economic Advisors, between 1980 and December 1983, the dollar appreciated some 52 percent against a basket of 10 other western currencies. After adjusting for relative inflation in the eleven countries, the dollar's real rise was 45 percent. All other factors being equal, then, these foreign exchange movements made U.S. exports almost one-half more expensive than otherwise, while making foreign imports about one-third cheaper than otherwise in the U.S. market.

The cause of this appreciation is macroeconomic, not organizational; but this situation was permitted to deteriorate, in part, because there was no single voice to protest its impact on our trade balance. Instead, there was a cacaphony of voices, each qualified by the various concerns of eight different cabinet Departments.

Alone among the major nations of the world, the United States has no central place in government to coordinate information, policies, and assistance to promote exports. Alone among the major nations of the world, the United States lacks a cabinet position, one of full prestige and power, devoted to the global economy. It is little wonder that America has yet to develop a policy to address our trade problem. Instead, we do nothing, waiting for an invisible hand to sweep away the trade deficit. We have waited long enough; the problem will not simply correct itself.

In the past, it did not much matter that we did not coordinate our trade policy. Times have changed. The post-war trading system was based on principles set forth in the General Agreement on Tariffs and Trade of 1947, principles reflecting notions about trade developed first by David Ricardo in his Principles of Political Economy and Taxation. According to Ricardo and other later economists such as Eli Heckscher and Bertil Ohlin, trades patterns should reflect differences among nations in natural economic endowments and productivities—of land, labor, and capital. And this model assumed that these nations all had something like free economies, in which the overwhelming proportion of commerical decisions were in private hands. The GATT was based on that assumption.

The political economy of the world has changed, and radically so, since Ricardo first published his work in 1817, and much even since GATT's formation in 1947. Today, the United States, almost alone among GATT's industrialized members, still subscribes to the economic tenets which underlay the organization's formation. In Japan, the powerful Ministry of International Trade and Industry (MITI) formulates industrial as well as trade policy and facilitates corporate modernization, investment, and technological decisions in accordance with these policies. France has moved from the state-planning principles of the Gaullist's *Dirigisme*, embodied in the Commisariat General Au Plan, to the state-directed economies of the current socialist government.

These statist strategies enable countries to shift their comparative advantages, so as to compete better, if less fairly, in the international marketplace. Quite simply, the policies pursued by other industrial nations and, increasingly, by less-developed nations trying to emulate their development policies, undermine the principles embodied in the GATT. In the process the international division of labor and capital has been shifted to the disadvantage of American workers and industries.

In response to the trade strategies of other nations, we have cobbled together a jumble of reactive measures, which are neither coherent, consistent, nor successful. Recently Thomas R. Graham, former Deputy Counsel of the U.S.T.R., made a persuasive case that the United States needs a Department of Trade and Industry, which he describes in terms much like those in S. 21. Mr. Graham writes:

"Incoherence is largely the result of a trade policy-making apparatus that remains from the days when the United States could take its commercial competitiveness at home and abroad for granted. U.S. trade policy is made in at least eight little fiefdoms—including the Commerce Department, which investigates allegations of unfair foreign dumping or subsidies; the Agriculture Department, which pushes U.S. farm exports; the U.S. International Trade Commission, which determines whether imports have injured U.S. industries; the Office of the U.S. Trade Representative, which tries to referee the jurisdictional battles and negotiates with foreign governments; and the State Department, which tries to patch up the resulting international repercussions. The strong bias of this policymaking system is toward ad hoc reactions."

That we cannot go on in this matter ought to be evident to all. The costs of doing so are too great. Permit me to cite an example.

A domestic economic policy decision, pursued over many years through both legislative and judicial channels, has just opened up to the world one of the largest markets in the world: the American communications market. I refer, of course, to the breakup of the largest regulated monopoly in the world, AT&T. Among the major beneficiaries of this new sector of the free market will be the giant foreign telecommunications corporations—Nippon Electric; CIT Alcatel; Thomson, Ericsson and Northern. It is no surprise that most of them were created and, in part, supported by state-centered industrial policies. This may prove to be one of the greatest trade policy blunders in our history. We have, in effect, thrown away the opportunity to demand comparable open markets in telecommunications from our trading partners. No one department or agency in government was positioned to speak to this blunder, to avert it. We cannot afford many more.

We enjoy a significant advantage in telecommunications. In other, less competitive sectors of the economy, our response, if anything, has been worse than nothing. When an industry is under intense competition from abroad, our reaction often is to impose quotas, tariffs, or some other protective measure. This may be a short-term solution, but it hardly addresses the long-term problem. There is no strategic planning involved in simply reducing imports, it is an ad hoc reaction to an event, after the fact.

To meet the challenges of a newly competitive world economy, without ad hoc protectionism, I propose that we begin by organizing ourselves, and do so now. As my bill, S. 21, proposes, the place to consolidate all the trade-related responsibilities of the government is the Commerce Department. In its early years, the Department of Commerce was enormously useful, helping to create a truly national economy within the United States, out of the regional economies that grew up in the first half of the 19th century. That work is done. Now the department should turn to the challenge of our time—defining the role our national economy can play in a newly competitive world. In fact, the description of the recent Commerce Department in the United States Government Manual begins: "The Department of Commerce, encourages, serves and promotes the nation's international trade . . ."

To enable it to do just that, S. 21 would bring into the Department the trade functions of: the Office of the U.S. Trade Representative; Agriculture Department; Defense Department; Department of Energy; Department of Labor; Department of State; Department of Transportation; Treasury Department; Export-Import Bank of the United States; U.S. Overseas Private Investment Corporation; Small Business Administration; U.S. International Development Agency; and the U.S. International Trade Commission.

The new Department of Trade and Commerce would be divided into two parts—one for international trade and one for domestic commerce, with an undersecretary for each. There would be separate offices, within the Department, for strategic trade and for export financing.

The new Department of Trade and Commerce must have the expertise and technical means to carry out its expanded function. The Department must be equipped to develop an overall trade strategy, with the capacity to analyze economic information, aid certain industries, and assist in financing exports. To promote the Nation's overall international economic interests, policy-making authority for the appropriate industrial, technological and trade matters should be united in the department. In time, it could become the focal point for cooperative efforts by government, business, and labor to enhance our international competitiveness.

We cannot develop an effective international trade policy unless we truly understand our domestic economy—the natural, human and technological resources we have, and the comparative advantages we can build on to expand and promote our international trade. Without this knowledge, a comprehensive and informed trade policy will not be possible. To meet these needs, then, an office will be established in the Department of Trade and Commerce to collect and analyze information concerning the distribution of economic resources throughout our domestic economy.

I have studied the proposal advanced by my colleague on this Subcommittee, Senator Roth, and the Administration. Their plan does represent a step in the right direction, an important one, but I think that we can and must do more.

Paradoxically, only a large plan has a real chance of success. It is essential that we combine all our trade functions. How can we talk seriously about trade reorganization, for example, unless we include our largest items of trade, agricultural products? Last year we exported $36 billion in agricultural products, or more than 18 percent of all our merchandise export trade. A trade policy-making body that can not speak for one-fifth of exports can be neither comprehensive nor effective.

Similarly any hope for a complete trade policy apparatus must include the Office of Trade Adjustment Assistance. As the U.S. economy becomes more integrated with those of the rest of the world, adjustment assumes a greater role. Only by coordinating trade and adjustment policies, can we maintain a real commitment to and support for an open trading system.

Permit me one observation about the Administration's trade reorganization proposal, S. 121. It is axiomatic that, when no one is in charge of a matter in government, an office is established in the White House to impart some semblance of order. Under S. 21, my bill, the President would have no need for White House staff refereeing trade disputes among the various agencies, because the Secretary of Trade and Commerce could speak for the country's trade policy. Under S. 121, however, a ne' White House staff would also be created to handle trade issues, the White House Council on International Trade, Economic and Financial Policy. I submit that we accomplish little by transferring the Office of the Special Trade Representative to the Department of Commerce, and then creating a new special White House Council for trade.

I also have examined S. 1723, Senator Mattingly's trade proposal. This proposal, like the Administration's, recognizes the need to address the problem.

We need a comprehensive trade policy, one involving every trade-related function of government. S. 21 offers a complete and reasonable solution. It would rationalize our existing trade structure, by creating a department quite capable of helping America restore itself to prominence in international trade.

Mr. Chairman, thank you for this opportunity to appear before you today. This Subcommittee, of course, has a large interest in trade reform, and I look forward to working with you to turn these ideas into policy.

FACT SHEET ON SENATOR MOYNIHAN'S DEPARTMENT OF TRADE AND COMMERCE ACT OF 1983 (S. 21)

The United States Government has no coherent international trade policy and one reason is clear· the United States government has never organized itself to produce one, and to protect the interests of American firms and workers. The responsibility for developing and implementing trade policy has been divided among fourteen separate departments and independent agencies.

Our need to organize ourselves, and promote our international trade, is immediate and dire. In 1983, the United States posted a record merchandise trade deficit of $60.6 billion, following the 1982 record merchandise trade deficit of $36.4 billion. The President's Council of Economic Advisors estimates that the 1984 deficit could reach as high as $110 billion. One of every five American jobs depends on trade, yet, we are losing these jobs to other nations, which have more clearly defined the role of their national economies in a highly competitive interdependent world.

The Department of Trade and Commerce Act of 1983 (S. 21) would improve our trade policy-making by:

Redesignating the Department of Commerce as the Department of Trade and Commerce, and consolidating all the various trade-related functions now performed by 14 governmental departments and independent agencies into the new department. The Secretary of Trade and Commerce would have responsibility for:

Promoting new trade and commercial opportunities abroad for American goods, services and investment;

Protecting American industry from unfair competition;

Negotiating international trade agreements;
Assisting the financing of U.S. international trade; and
Promoting overall U.S. international economic interests.
Dividing the Department of Trade and Commerce into two divisions—one for international trade and the other for domestic commerce, each headed by an Undersecretary—and establishing separate offices within the Department for strategic trade, export financing; and collecting information concerning the distribution of economic resources throughout the domestic economy.
Attached is a list of the trade-related functions transferred to the Department of Trade and Commerce under S. 21.

TRADE FUNCTIONS TRANSFERRED TO THE DEPARTMENT OF TRADE AND COMMERCE

The trade-related functions of the following departmental sub-divisions:

Department of Treasury

United States Customs Service.
Office of the Assistant Secretary for International Affairs (expected by OMB determination).

Department of Agriculture

Foreign Agricultural Service (expected by OMB determination).
Office of International Cooperation and Development (expected by OMB determination).

Department of State

Trade functions of the Bureau of Economic and Business Affairs (expected by OMB determination)
Trade functions of the Bureau of International Organization Affairs (expected by OMB determination).
Trade functions of the Undersecretary for Economic Affairs (expected by OMB determination).

Department of Energy

Office of the Assistant Secretary for International Affairs.

Department of Labor

Office of Trade Adjustment Assistance.

Department of Transportation

Office of the Assistant Secretary for Policy and International Affairs.

Department of Defense

Office of Assistant Secretary for International Security Affairs.

Non-Departmental Agencies

Office of the U.S. Trade Representative.
Export-Import Bank.
Overseas Private Investment Corporation.
U.S. International Development Cooperation Agency.
U.S. International Trade Commission.
Small Business Administration (extension of credit for exports and imports).

Senator DANFORTH. I have a prepared statement, which I am not going to read, but will insert it in the record.

In addition to the prepared statement, I would like to review very briefly my own thoughts on the proposed new Department of International Trade, and then Senator Roth will have some comments as well.

When this idea of a new Department of Trade was first broached with me by Secretary Baldrige, I was at least willing to give the idea a chance. I have to say that I was not terribly impressed with it at the outset, but I did think that, because it was an administration initiative and because the Secretary of Commerce felt very strongly about it, at least I should give it the benefit of the doubt.

It seemed to be to be a kind of a benign idea although not a particularly useful idea. In the nature of the new Department of Energy or the new Department of Education, there is a tendency for us to think that if we have a substantive problem, we can solve the substantive problem by administrative reorganization. I don't think that that is true, but at the time that this was first raised by the Secretary of Commerce, my view was what harm would it do, and why not just go along.

However, I did not feel that it would do anything to reduce the trade deficit. It is argued that we have a trade deficit, and it is a very large trade deficit, and we have to do something about it. But I don't think that creating a new Department of Commerce would have any effect at all on the trade deficit. It would not affect the value of the dollar. It would not even necessarily affect any policy change.

It would not promote U.S. exports. The Commerce Department now has the responsibility for promoting exports, and a Department of Trade would not necessarily bring any improvement in that direction. So, that was my initial view—not particularly a very good idea, but maybe it was a benign kind of an idea.

The more I thought about it, the worse the idea sounded, and I have now concluded that a new Department of Trade would not only not be a step forward—I think it would be a step backward—a step in the wrong direction.

It would create problems for the United States in the area of international trade. Why? First, setting up anything new takes time. It is said that we are now in a trade war. If we are in a trade war, it seems to me now is not the time to dig new foxholes and new trenches and start moving people around in the foxholes. And it is clear that any reorganization requires a diversion of manpower and a diversion of energy. In fact, it could be said that for the past year or two, there has been a significant diversion of attention—within the administration and within the Congress—from substantive trade issues to the procedural question of where the authority should be located.

Second, it is said that the new Department of Trade is going to put all agencies—all components of the trade issue—under one roof. Instead of having a two-headed monster, we are going to have something with only one head. I don't think that that analogy is correct.

As a matter of fact, with or without the new Department of Trade, many agencies in the Federal Government are going to be involved in trade matters. With or without the new Department of Trade, the Department of Agriculture is going to be involved in agricultural trade. There is no plan to move the trade function of the Agriculture Department into the new Department.

With or without the Department of Trade, the International Trade Commission is going to continue to operate. That will not be in the new Department. The U.S. Customs Service is going to continue to be involved, and that will continue to be in the Treasury Department—not in the new Department of Trade.

The Defense Department is going to continue to be interested in the kinds of technologies we are exporting through the Export Administration Act. So, there are going to be a variety of agencies and departments of the Federal Goverment involved in trade matters and trade policy which will not, under any circumstances, be folded into a single department.

My own view is that within the United States, trade is not a homogeneous matter. We do not have one trade policy, and we never will. America does not speak with one voice in international trade and never will.

For example, last summer, at the time of the textile arrangement with China, it was clear at that time that we had at least two separate, conflicting interests within the United States. One was our U.S. textile industry which wanted to adopt a highly protectionist approach. The other was U.S. agriculture, which was interested in exporting U.S. agricultural products to China.

The two interests were really incompatible, and somebody had to broker those two conflicting interests. Somebody had to try to work it out—the two interests. And I think that that lack of a homogeneous approach—that division of interests within the country—is inherent, and it will not be fixed by creating a new Department of Trade. In fact, by creating a new Department of Trade, we will remove the honest broker. We will remove that outside organization, which was intended by Congress—when the USTR was created—to try to bring together these diverse interests and to broker them as best we can.

I don't think that a new Department of Trade will raise the visibility of international trade. Right now, we have a Cabinet level office—the USTR—it is in the Office of the President. I don't think that the situation would be improved with respect to visibility by creating a new junior Cabinet department.

Finally, looking at the work product of the Governmental Affairs Committee—on which I sit, and Senator Roth is our very able chairman—I don't think that the bill in its present form is particularly good. The administration itself has pointed out a number of problems with this bill. We will get into those when the Secretary of Commerce arrives, but it certainly under any circumstances did not turn out to be the creation of what was billed as a lean, mean Department of Trade.

Right now, the USTR has about 130 people in it. They are by and large very professional people. The USTR is the elite corps of trade policy and trade negotiations. Those 130 or so professional people at USTR would be folded into a department of approximately 12,000 people. They would be rattling around in a very large department, much larger than the USTR is now.

Instead of maybe five political positions—which there are now in the USTR—and then the professionals right there with those five political appointees—there would be in the new Department of Trade something like 76 different political appointees—30 of them with the consent of the Senate, and 46 just by executive appointment or a total of at least 76 people, who would be political.

And it would seem to me that we would have an overlay of political characters who would make it less possible for there to be direct communication between those who were highly professional in trade negotiations and those who were on top.

So, for all of those reasons, I have concluded that the new Department of Trade is something worse than just a benign accretion in trade matters.

I think, instead, it is a malignant addition. I think that it is something that will make trade policy more difficult, and U.S. position on international trade worse than it is now.

Senator Roth.

Senator ROTH. Thank you, Mr. Chairman. I am pleased that we are holding these hearings because, of course, the Finance Committee has jurisdiction over our trade laws. As you well know, S. 121—the reorganization of the trade and commerce functions--has been reported out by the Governmental Affairs Committee, of which I am chairman.

I am pleased to say that—in contrast to what you have said—we have a good bill. Like any piece of legislation, it does represent compromise—a consensus formed from differing ideas. There are some things I would have preferred not to have in the legislation, but overall it represents a major step forward

I do have a prepared statement, Mr. Chairman, and would ask that it be included in the record, but I, too, would like to make a few comments.

I, for one, am not satisfied. I am not satisfied with where we are in the world competitive picture. I think the record merchandise trade deficit of over $60 billion gives us all grounds to be unhappy. Now, I am not here to say that organization in and of itself will solve all of our trade problems because there are many factors, including the strong dollar. But it is the height of folly to say that organization does not matter because organization is one of the most critically important factors to any successful Government or private program.

I can recall, while at Harvard Business School, giving credit to the Du Pont Co., which headquarters in my State, for being such an outstanding success for two or three reasons. One of the principal reasons is their strong organization. Unfortunately, however, we do not have sound organization here in Washington for trade. This is not a matter of trying to put all trade-related functions under one head, because anyone who knows anything about Government at all—or organization at all—understands that however you organize there are going to be certain aspects of a policy in another agency or department, because many matters do have overlapping interests.

But the problem today with our trade organization is that we have the basic trade functions divided. Today, in the USTR, we have the responsibility for policy and negotiation, whereas in the Commerce Department, we have responsibility for collection of facts and figures plus administration. This is an unhealthy division of responsibility because the collection of facts and figures is a key part of making policy.

Very frankly, it is very difficult to say when administration ends and policy begins, or vice versa. The fact is that there is a division of responsibility which has created conflict and unnecessary turf-fighting. The first Under Secretary of Trade in Commerce, who served under President Carter, has testified before our committee that a good portion of his time as Under Secretary was spent sitting down with the USTR to decide who was responsible for what and who was doing what to whom.

Now, it is no secret in this town that there has been a lot of turf-fighting in the trade area. What we are trying to do is to put the key trade functions together, and that is what has been done in the new department. We have the collection of facts and figures, and that is one thing that we have been sorely lacking. As a matter of fact, one Japanese individual said that one of the problems with our trade activities has been the fact that we tended to react to the first industry that came here because of insufficient information. Later on, other parts of that industry would object and even go to the Japanese to get their help.

We have not had the collection of data and the analysis that are essential for strong trade policy. This is one aspect of the new department that we are bolstering and strengthening. This improved analytical capability, upon which policy is based, for the first time will be located in the unit of Government in which policy is made.

So, what we are doing is to eliminate the two heads and create one head. Now, we are not claiming that we are putting everything within this department. That has never been our intent. The International Trade Commission as a matter of fact has a judicial function, and I think that most people support that as an independent unit, but the first point I want to make is that we are providing for the kind of information that I think is essential that we develop in this country if we are to become competitive in world markets.

This is spelled out with great particularity and clarity. In some ways with respect to industrial policy, it goes even further than I would wish but in any ev^ + we are bringing the key functions together under one head.

I would point out that we are continuing to have an honest broker. An honest broker will remain in the White House because we will have a Trade Policy Committee with the President as the head of it. I, for one, think that if this country is going to prosper—if this country is going to develop the kinds of jobs that are going to be necessary for the young—that we have to make trade a No. 1 national goal, which means the involvement of the President.

Under our legislation, as I said, the President will be the chairman of the Trade Policy Committee. I would also point out that we continue to have a small staff in the White House to aid the President in brokering and coordinating key trade issues.

We also have created an instrumentality responsible for bringing some rhyme and reason, not only to international trade, but economics and financial policy. It is a little more inflexible than I would like, but one of the concern has been that our trade policies, our economic policies, and our monetary policies have not always been moving in the same direction. So, there will be an instrumentality in the White House to ensure consistency in this area.

Mr. Chairman, I don't want to take too much time, but I do want to point out what we feel that the kind of organization other countries enjoy is fundamental if this country is to become competitive in world markets and regain its leadership in the area of trade. And in doing so, I would like to remind my colleagues on the Finance Committee that this committee shall continue to have jurisdiction on trade matters and that the confirmation hearings for the new Secretary of Trade would be held by this committee.

Thank you, Mr. Chairman.

Senator DANFORTH. Thank you, Senator Roth.

First, we have Senator Mattingly, who has taken a great interest in this subject. We are glad to have you with us.

STATEMENT OF HON. MACK MATTINGLY, U.S. SENATOR FROM THE STATE OF GEORGIA

Senator MATTINGLY. Thank you, Mr. Chairman.

It is a pleasure to testify before the Senate Finance Committee this morning to discuss an issue of tremendous concern to me, namely the structure of the trade policy mechanism within the U.S. Government and how it can be changed to promote U.S. exports.

Within the general framework of trade reorganization debate, your committee will receive testimony on different legislative approaches to trade reorganization, two of which are: S. 121 introduced by my colleague, Senator Roth, and supported by the administration—and my own bill, S. 1723, which was referred to this committee.

The Senate Finance Committee also has a very strong interest in this issue because of its involvement and responsibility for the creation of a U.S. Trade Representative. Since the committee was instrumental in drafting the Trade Act of 1974, which created the Office of the USTR, I can understand your interest in any changes made to it.

Now, before I turn to this proposal, I would first like to set the stage for further discussion of trade reorganization. As Ambassador Brock had stated before the Joint Economic Committee in January, the trade deficit is the weak link in our economic recovery. And with a $70 billion trade deficit in 1983, and an estimated $100 billion in 1984, how could anybody argue with that?

One problem is that other countries are outcompeting us in trade. Why? One is the strength of the U.S. dollar, which makes us uncompetitive. Second, worldwide economic recovery is not in sync with our own recovery. Until the economies of other industrial nations catch up with our own, the United States will continue to be at a trade disadvantage. Third, the process certain industries are experiencing in adapting to the changing marketplace is slow and painful. I think it is a part of the evolutionary global economic recovery that we are undergoing.

Fourth, efforts to bring the newly industrialized countries into the GATT or within the boundaries of international trading rules are slow. Fifth, the international debt crisis continues to triple the competitiveness of the U.S. exports. And, last, the United States is not alone in facing growing protectionism.

The other problem is that our Government has been unable to develop a coordinated approach to trade problem management. Rather than a coherent unified approach to trade problem management, the Government makes ours in bits and pieces and calls it free trade. Thus, trade policy is made by the policymaker who speaks with the loudest voice.

Subordination of the trade considerations to other kinds of policy matters in areas like fiscal, monetary, budget, and foreign policy has compounded that problem. There is a current lack of awareness among policymakers that trade policy in some way impacts on all other kinds of Government policy. Therefore, considerations on trade are not adequately factored into decisions made in other trade-related policy areas.

Mr. Chairman, alleviating these difficult and long-term problems demands one solution—a type of trade reorganization by which the President and his Representative for Trade are the chief spokesmen for trade policymaking and negotiation. Their voices should sound the loudest on trade to coordinate competing interests within the interagency process. Such a reorganization plan is necessary and a vital step toward restoring our position in world trade.

Now, if the objective of a trade reorganization plan is to elevate the level of trade within the executive branch, the creation of a DITI is not the solution. If, on the other hand, our objective is to further weaken trade policymaking by further diffusion, the DITI approach would be appropriate.

Furthermore, our trade community cannot wait the several years required to implement DITI. It cannot afford to have attention diverted from substantive issues and a need for immediate action while the focus is on reorganization or on organization. S. 1723 works within the existing structure and requires immediate Presidential attention to quickly attack the core of the problem—a lack of focus on trade policy and the need to create a lean and mean trade team.

Now, in addition, any new DITI will serve the domestic industry through increased protectionism, since 85 percent of the domestic industry is import-sensitive. DITI, therefore, would become captive of narrow interests and may indeed become the department of protectionism. If the idea is to imitate other countries' vehicles of protectionism—like Japan's MITI or Canada's FIRA, or even Europe's Common Market—the idea is a bad one. The answer to our trade problems is not to counter protectionism with protectionism.

S. 121 has already taken on some of the overtones of industrial policy. The bill includes a provision establishing an Office of Competitive Analysis in DITI. This office would identify key troubled industries and, based on its findings, convene a tripartisan business-Government-labor council to recommend corrective action.

Finally, the creation of a DITI, while creating more costs and more bureaucracy, will not lead to better coordination among the agencies which have input into trade policymaking. Despite a DITI, other agencies will continue to formulate policies which impact trade. Given these facts, though, I am happy to see that the Finance Committee has now become active in considering the broader questions of trade reorganization and examining possible alternatives to S. 121.

With the most recent debate over trade reorganization and far-reaching proposals which threaten the Office of USTR as it exists today, I believe the committee should reassess current trade organization and examine what should be done in this regard.

Such action is required in order to arrest further deterioration in our trade status. If you do, I believe the following facts should be considered.

First, the realities of international trade today and the U.S. position in world trade have changed.

Second, the current U.S. Government structure of trade is inadequate.

Third, the trade reorganization is necessary.

Fourth, the creation of a new department of international trade and industry will not solve the substantive problems we face in trade today.

And, finally, that the bill I proposed, while requiring more legislative substance, is a good start toward achieving what reorganization is needed. It provides the Finance Committee a vehicle through which a trade reorganization alternative can be developed.

Now, the intent of S. 1723 goes a lot further than its actual substance. At the present time, S. 1723, first, changes the name of the U.S. Trade Representative to his original title of the President's Special Representative for Trade Negotiations. Second, it changes the name of his office accordingly; and third, it designates the President the chairman of the Interagency Trade Policy Committee and his Representative for Trade the chairman pro tem.

However, if your committee were to develop a proposal, as it should, I think additional elements should be included.

Let me just enumerate some of those. First, it should restore the original intent—and I underscore intent—of Congress and the Trade Expansion Act of 1962, which delegated authority to the President and his Representative for Trade to formulate and negotiate trade policy. This authority was renewed under the Trade Acts of 1974 and 1979.

Second, to reaffirm congressional intent—once again underscoring intent—permitting the trade policymaking process to be managed by the President's Representative for Trade, but be closely and immediately controlled by the President. That way, when the President's Representative for Trade speaks, it will be just like hearing it from the President himself.

Third, we need to keep the office directly under the umbrella of the White House, so that the responsibility for formulating and coordinating trade strategy among the agencies with trade jurisdiction is placed at the most visible and credible level.

This would restore the effectiveness of the interagency trade organization which was created by the Trade Expansion Act of 1962 and has served as the basis for trade policymaking for over 20 years.

Fourth, we must reduce, as the chairman said, the size of the office of the USTR. I believe that the office has taken on the bureaucratic characteristics of other Federal departments and has lost its markings of a small office of the President.

In 1962, when the Office of the Trade Representative was created, there were 25 professionals. In late 1974, the size of the staff was approximately 40. By fiscal year 1980, USTR had 131 positions. You know, in the current fiscal year, USTR is operating under one ceiling of 131 permanent positions.

The growth of the staff has caused USTR to lose its ability to really reconcile the disparate but valid interests of other departments which influence trade to the point where USTR, to quote Secretary Baldrige, "is only able to reach the lowest common denominator."

And I believe that is true.

Next, we want to eliminate the ambiguities in our trade laws to clearly define each agency's responsibilities in trade from policymaking to implementation. Our trade laws should clearly define who sets policy and who implements policy. While this should sound obvious, disputes over what agency is responsible for what issue continue today.

An article that just appeared in the Washington Post on February 15, cites the confusion over trade policymaking. And I quote—it says, referring to Secretary Baldrige:

> * * * with his greater access to Reagan, appears to have taken control over important trade policy decisions and negotiations away from William E. Brock.* * * Baldrige, for instance, was instrumental in persuading the President to tighten restrictions on textile imports against Brock's strong opposition. The Commerce Secretary also handled key negotiations in late 1982 with the European Economic Community that led the Europeans to agree to limit steel exports to the United States.

Now, whether that is true or false, I can sort of imagine how amusing that these reports are to our trade partners.

Lastly, I think that we need to eliminate the duplication and the overlap of the Cabinet-level committee structure.

This structure administered within the White House has become overgrown, duplicative, and confusing. There are four interagency Cabinet-level committees which, in some way, deal with trade issues. There are the Cabinet Council on Commerce and Trade [CCCT], the Cabinet Council on Economic Affairs, the TPC, and SIGIEP. You know, with so many groups and interests involved, it is no wonder that we have no unified trade policy.

The trade reorganization plan that I envision would result in a strong U.S. trade policy. Being firmly secured in the White House, I think it could be implemented faster, more aggressively, and more uniformly. It would raise its level of importance to equal that of other policy considerations like fiscal, monetary, and foreign policies.

This kind of organization of the trade policymaking machinery would also let our trading partners know that we are serious about promoting fair trade and rank the trade policy high in priority. The arrangement would also give a unified voice and a location for the benefit of the U.S. private sector that will lead the way to trade expansion if they are simply given a level playing field on which to trade.

The bottom line is that trade is crucial to the future economic growth, prosperity, and security of our country. And only a strong, unified and understandable U.S. trade policy can provide the answer to our current trade dilemma. I believe that S. 1723 is the beginning of the most viable option to accomplish that end.

And as we examine ways to reduce the $180 billion deficit, of equal and immediate concern must also be the trade deficit, and examining ways to reverse its growth. I look forward to working with the Finance Committee in the future. Thank you.

Senator DANFORTH. Thank you very much, Senator Mattingly.
[The prepared statement of Mack Mattingly follows:]

STATEMENT BY SENATOR MACK MATTINGLY ON TRADE REORGANIZATION

Thank you, Mr. Chairman. It is a pleasure to testify before the Senate Finance Committee this morning to discuss an issue of tremendous concern to me, namely, the structure of the trade policy mechanism within the U.S. Government and how it can be changed to promote U.S. exports. Within the general framework of the trade reorganization debate, the committee will receive testimony on different legislative approaches to trade reorganization, two of which are (1) S. 121, introduced by my good colleague Senator Roth and supported by the administration; and (2) my own bill, S. 1723, which was referred to this committee.

The Senate Finance Committee also has a very strong interest in this issue because of its involvement and responsibility for the creation of the Office of the U.S. Trade Representative (USTR). Since the committee was instrumental in drafting the trade act of 1974 which created the Office of the USTR, I can understand your special interest in any changes made to it. Before I turn to these proposals, I would first like to set the stage for further discussion of trade reorganization.

TRADE OUTLOOK

As Ambassador Brock stated before the Joint Economic Committee in January, the trade deficit is the "weak link" in our economic recovery. With a $70 billion trade deficit in 1983 and an estimated $100 billion in 1984, how can anyone argue?

One problem is that other countries are "out-competing" us in trade. Why? (1) the strength of the U.S. dollar makes us uncompetitive; (2) world-wide economic recovery is not in sync with our own recovery. But if, when and until the economies of other industrial nations catch-up with our own, the U.S. will continue to be at a trade disadvantage; (3) the process certain industries are experiencing in adapting to the changing market place is slow and painful; (4) efforts to bring the newly industrialized countries into the GATT or within the boundries of international trading rules are slow; (5) the international debt crisis continues to cripple the competitiveness of U.S. exports; and (6) the U.S. is not alone in facing growing protectionism.

The other problem is that our government has been unable to develop a coordinated approach to trade problem management. Rather than a coherent, unified trade policy, the government makes ours in bits and pieces and calls it "free trade." Thus, trade policy is made by the policy-maker who speaks with the loudest voice.

Subordination of trade considerations to other kinds of policy matters in areas like fiscal, monetary, budget and foreign policy has compounded the problem. There is a current lack of awareness among policy-makers that trade policy is some way impacts all other kinds of government policy. Therefore, considerations on trade are not adequately factored into decisions made in other trade-related policy areas.

TRADE REORGANIZATION IS NECESSARY

Mr. Chairman, allievating these difficult and long-term problems demands one solution: A type of trade reorganization by which the president and his representative for trade are the chief spokesmen for trade policy-making and negotiation. Their voices should sound the loudest on trade to coordinate competing interests within the interagency process. Such a reorganization plan is a necessary and vital step toward restoring our position in world trade.

If the objective of a trade reorganization plan is to elevate the level of importance of trade within the executive branch, the creation of a DITI is not the solution. If, on the other hand, our objective is to further weaken trade policy-making by further diffusion, the DITI approach would be appropriate.

Furthermore, our trade community cannot wait the several years required to implement DITI. It cannot afford to have attention diverted from substantive issues and a need for immediate action, while the focus is on organization. S. 1723 works with the existing structure and requires immediate presidential attention to quickly attack the core of the problem: A lack of focus on trade policy and the need to create a "lean and mean" trade team.

In addition, any new DITI will serve the domestic industry through increased protectionism, since 85 percent of the domestic industry is import-sensitive. DITI, therefore, would become captive of narrow interests and may indeed become the "department of protectionism." If the idea is to imitate other countries' vehicles of protectionism, like Japan's ministry of international trade and industry (MITI) or Canada's foreign investment review agency (FIRA) or even Europe's common market, the idea is a bad one. The answer to out trade problems is not to counter protectionism with protectionism.

S. 121 has already taken on overtones of an industrial policy. The bill includes a provision establishing an office of competitive analysis in DITI. This office would identify key troubled industries and, based on its findings, convene a tripartite business-government-labor council to recommend corrective action.

Finally, the creation of a DITI, while creating more costs and more bureaucracy, will not lead to better coordination among the agencies which have input into trade policy-making. Despite a DITI, other agencies will continue to formulate policies which impact trade. For example, tax policy (Treasury), antitrust policy (Justice), agricultural policy (USDA), and foreign policy (State) are valid contributions to the trade policy-making process. The secretary of DITI, who would be an equal to other secretaries responsible for trade-competing interests, would not be able to elevate the importances of trade to a level which transcends the political turf fights characterizing the interagency process. Only the president would be able to stand above it and coordinate these special interests.

Given these facts, I am happy to see that the Finance Committee has now become active in considering the broader question of trade reorganization and in examining possible alternatives to S. 121.

With the most recent debate over trade reorganization and far-reaching proposals which threaten the Office of USTR as it exists today, I believe the committee should reassess current trade organization and examine what should be done in this regard. Such action is required in order to arrest further deterioration in our trade status. If you do, I believe the following facts must be considered: (1) the realities of international trade today and the U.S. position in world trade have changed; (2) the current U.S. Government structure of trade is inadequate; (3) trade reorganization is necessary; (4) the creation of a new Department of International Trade and Industry (DITI) will not solve the substantive problems we face in trade today; and (4) S. 1723, while requiring more legislative substance, is a good start toward achieving what reorganization is needed. It provides the Finance Committee a vehicle through which a trade reorganization alternative can be developed.

The intent of S. 1723 goes a lot farther than its actual substance. At the present time, S. 1723 (1) changes the name of the U.S. trade representative to his original title of the president's special representative for trade negotiations; (2) changes the name of his office accordingly; and (3) designates the president the chairman of the interagency trade policy committee and his representative for trade the chairman pro tem.

However, if the committee were to develop a proposal, as it should, these additional elements should be included;

(1) To restore the original intent of Congress under the Trade Expansion Act of 1962 which delegated authority to the President and his representative for trade to formulate and negotiate trade policy. This authority was renewed under the Trade Acts of 1974 and 1979.

(2) To reaffirm congressional intent permitting the trade policy-making process to be managed by the President's representative for trade, but be closely and immediately controlled by the President. That way, when the President's representative for trade speaks, it is just like hearing it from the President himself.

(3) Keep the office directly under the umbrella of the White House so that the responsibility for formulating and coordinating trade strategy among the agencies with trade jurisdiction is placed at the most visible and credible level.

This would restore the effectiveness of the interagency trade organization which was created by the Trade Expansion Act of 1962 and has served as the basis for trade policy-making for over 20 years.

(4) Reduce the size of the Office of the U.S. Trade Representative. I believe the office has taken on the bureaucratic characteristics of other Federal departments and has lost its markings of a small office of the President.

In 1962 when the Office of the Trade Rep was created there were 25 professionals. In late 1974, the size of the staff was approximately 40 professionals. By fiscal year 1980, USTR had 131 positions: 113 permanent slots and 18 temporary. In the current fiscal year, USTR is operating under one ceiling of 131 permanent positions.

The growth of staff has caused USTR to lose its ability to reconcile the disparate but valid interests of other departments which influence trade to the point where USTR, to quote Secretary Baldrige, is only able to reach the "lowest common denominator."

(5) Eliminate the ambiguities in our trade laws to clearly define each agency's responsibilities in trade from policy-making to implementation. Our trade laws should

clearly define who sets policy and who implements policy. While this should sound obvious, disputes over what agency is responsible for what issue continue.

An article appearing in the Washington Post on February 15, 1984, which I have placed in the Congressional Record for all to read, cites the confusion over trade policy-making. I quote:

". . . Baldrige, with his greater access to Reagan, appears to have taken control over important trade policy decisions and negotiations away from William E. Brock. . . . Baldrige, for instance, was instrumental in persuading the President to tighten restrictions on textile imports against Brock's strong opposition. The Commerce Secretary also handled key negotiations in late 1982 with the European economic community that led the Europeans to agree to limit steel exports to the U.S."

Whether true of false, I can imagine how amusing these kinds of reports are to our trade partners.

(6) Eliminate the duplication and overlap of the cabinet level committee structure. This structure administered within the White House has become overgrown, duplicative and confusing. There are four interagency cabinet-level committees which in some way deal with trade issues. They are the Cabinet Council on Commerce and Trade (CCCT); the Cabinet Council on Economic Affairs; the Trade Policy Committee (TPC); and the Senior Interagency Group on International Economic Policy (SIGIEP). With so many different groups and interests involved, it is no wonder that we have no unified trade policy.

CONCLUSION

The trade reorganization plan I envision would result in a strong U.S. trade policy. Being firmly secured in the White House, it would be implemented faster, more aggressively, and more uniformly. It would raise its level of importance to equal that of other policy considerations like of fiscal, monetary and foreign policies. This kind of organization of the trade policy-making machinery would also let our trading partners know that we are serious about promoting fair trade and rank trade policy high in priority. The arrangement would also give a unified voice and location for the benefit of the U.S. private sector that will lead the way to trade expansion if they are simply given a level playing field on which to trade.

The bottom line is that trade is crucial to future economic growth, prosperity and security of our country. And only a strong, unified and understandable U.S. trade policy can provide the answer to our current trade dilemma. I believe S. 1723 is the beginning of the most viable option to accomplish that end.

As we examine ways to reduce the $180 billion budget deficit, of equal and immediate concern must also be the trade deficit and examining ways to reverse its growth. I look forward to working with the Finance Committee and again express my thanks for having this opportunity to share my thoughts on this crucial issue. Thank you.

Senator DANFORTH. I think you have made some very good points, particularly your emphasis on congressional intent. Under the Commerce clause of the Constitution, trade policy is a matter that is for Congress, and anything that has been done in the trade area should have been delegated by Congress to the executive branch.

Congress has spoken in a number of trade bills over the past 22 years or so, and what Congress said—as I understand it—is that we want an Office of U.S. Trade Representative. We want a Trade Policy Committee, which is an interagency group, chaired by the USTR, making trade policy. That is how we want it done.

What has happened is that the administration has said to us, in effect, we want to do it our own way, and we will go through the motions of having the USTR and having a Trade Policy Committee, but we are going to set up a separate committee called the "Cabinet Council on Commerce and Trade," made up of the same members, but chaired by the Secretary of Commerce.

We are going to have the Secretary of Commerce negotiating trade deals and making pronouncements on trade, as well as the USTR. And it seems to me that if we have a two-headed monster right now, it is not because of anything the Congress has done, or any lack of clarity on the part of Congress, but the fact that the administration has, in effect, said that, while we have one quarterback leading the team, in the person of USTR, the thing to do is to put a second quarterback on the field at the same time. It is not enough to have Joe Theismann calling the plays. We want Bob Howie on the field at the same time calling the plays. And then complain that we have too many quarterbacks.

And maybe you are right. Maybe Congress should pass another bill which says we really meant it. I mean, we really want the USTR—by whatever name—to operate the show that is our creation, and we really want one interdepartmental Cabinet group coordinating trade policy, and we want the USTR to chair it. We don't want two or more.

So, I think—that wasn't very much of a question, I guess—but you might want to comment on that.

Senator MATTINGLY. I guess the answer to that would be yes. [Laughter.]

I think as a layman and as a Senator, we—Secretary Baldrige, Brock, the President, Senator Roth, and everybody else—are all working for the same goal. But I think what has happened in USTR and trade in general is what frequently happens to any agency in the Government. Once it has been established, as time goes on, as it rolls along, it keeps picking up more and more moss. The agency loses its real character or its original character that was intended by the Congress. I think this is exactly what has happened to trade in the United States. And if we don't really believe that, I think the best thing to do would be to go to somebody in the private sector and ask him where to go in this Government to get advice on trade.

Senator DANFORTH. Senator Roth.

Senator ROTH. I would like to congratulate you for your interest in trade and the leadership that you are showing in what I consider to be probably the most important problem this Nation faces, if we are going to succeed in having a growing and prosperous country.

I would point out that, even though we do disagree on some particulars, in S. 121 we have done some of the things to which you refer. You talked about the importance of the President in the policy-making role as delegated, I agree, with the chairman, by Congress, but we do provide in our legislation that the new Trade Policy Committee will be headed by the President. I think you are exactly right that it is critically important that the President play a key role in making this a national goal.

Second, in a little different way, we have also done what you have talked about in regard to the USTR. Now, in this sense, that we have created an advisor to the President with a very small staff in the White House to act as an independent advisor to the President, without creating the problems of competition or division of responsibility that now exist.

Now, I don't think we can blame anyone, either this administration or the last administration, for the situation we are now in. But the fact is that under the reorganization that was promulgated a few years ago, there was a division of responsibility to which I have made reference. In the Commerce, we have responsibility for collection of data. We have responsibility for administration of the trade laws and policies, while the USTR has responsibility for policymaking and negotiations. To me, organizationally, this makes no sense. As I already pointed out, the USTR has to go to the Commerce with respect to back-up.

What I am trying to say, Senator Mattingly, is that we have addressed some of the problems with which you are concerned. We have also done away with the intergovernmental Cabinet agency that now exists, so we have eliminated that aspect of the problem.

I do want to congratulate you for your interest and we do look forward to working with you on this most important problem.

Senator MATTINGLY. Thank you, and I might add that you are probably one of the people who got me interested in trade. So, I appreciate your kind comments. I have no dispute with anybody.

Here in our country right now, we keep talking about the budget deficit and trying to make a down payment on the budget, which would be fine, but we look at the trade deficit, and everybody talks about a $70 billion trade deficit and then it is going to go to $100 billion next year, or this year. You know, they just sort of shake their heads and roll on.

If you had that rate of growth in the Federal deficit—about a 40-percent growth in the trade deficit projected for this year—people would probably be tearing down the walls out here. And for us, I think that one major thing we need to do—as I keep repeating—is to raise the level of concern over trade in this country—the same level of concern that we have for the budget deficit in the monetary policy in the United States.

Senator DANFORTH. Senator Bentsen.

Senator BENTSEN. When the Senator says that there would be consternation if we had that kind of an increase in the budget deficit, I am not quite sure what he is talking about because you have had just that kind of a budget deficit increase—3 years ago of $58 billion, 2 years ago of $110 billion, and last year around $190 billion—that is almost doubling every year.

Both of the problems have to be addressed. I just got back from spending a weekend in Switzerland with about 30 public officials from around the world, most of them from the European Common Market. Almost all of those countries are dumping on the United States. I am not just using a trade term in that. [Laughter.]

But talking about it being our fault. We get their concerns about increasing protectionism in this country. I don't think we really need protectionism, but I do think we need to strengthen the laws and the remedies we have within GATT already. And do it within this country to really protect ourselves from dumping. Time and time again, I have seen the infighting amongst departments, and I see the Trade Representative, or the Department of Commerce losing out—losing out to the State Department or whomsoever else it might be. There is no question but what we have to change the structure and certainly the strategy in trying to do something about this trade deficit, in addition to the other economic problems that we have in trade and in becoming more competitive.

Bill Roth, I introduced a bill with you a couple of years ago in that regard. And we have had a lot of things happen in just those 2 years—or 3. I have not made up my mind as to what that structure ought to be, and that is why I am here—I am here to listen to you, Senator Mattingly, and Secretary Baldrige, and the rest of you.

But it is obvious that changes have to be made, and whoever represents us, it has to be more of a unified effort, and that particular officer also ought to be pushing the legislation that substantially changes the procedures here to expedite, to accelerate them.

Too often, we see some remedy supposedly take place long after the fact—when it is much too late. So, I appreciate your testimony, Senator, and your interest in it. And I will be looking forward to Secretary Baldrige's comments in that regard.

Senator MATTINGLY. Thank you. I was not able to go to Geneva with you. I wish I had been there, but I found warmer weather.

But what I found when I was home—which I am sure you find the same thing in Texas—is that those in the private sector get confused over where to go in the Government to get an answer. If they go to, say, a particular department, they stand an excellent chance of getting overridden by a decision from another department. I think—and I agree with you, Senator Bentsen—that whatever we do should not create confusion and that we should not diffuse policy more, but rather, bring the policy into one area of the Government as it was originally intended when this committee established the USTR in its inception. Thank you all very much.

Senator DANFORTH. Thank you, Senator. Senator Long, do you have anything?

Senator LONG. Not at this moment.

Senator DANFORTH. Secretary Baldrige.

Mr. Secretary, I think what we will do is have Secretary Tracy testify right after you, and then we will question you both together if that is all right.

STATEMENT OF HON. MALCOLM BALDRIGE, SECRETARY OF COMMERCE, DEPARTMENT OF COMMERCE

Secretary BALDRIGE. Thank you, Mr. Chairman. That will be fine with me.

Mr. Chairman and members of the committee, I am pleased to have this opportunity to testify on the urgent need to carry through the President's proposal to establish a new Department of International Trade and Industry.

The administration supports S. 121 as it was reported by the Senate Governmental Affairs Committee last October with some modifications which I will discuss. Mr. Chairman, on June 1 of last year, the President issued a statement at the White House concerning this proposal. He noted that the proposed new Department of International Trade and Industry would allow this Nation to fully develop its international trade opportunities and defend our international trading rights.

For the first time, a single Cabinet department would be responsible for both policymaking and policy implementation. This is the case with all of the other executive branch departments, and in the trade area with many—if not most—of our trading partners.

Our proposal would bring together the analysis, the negotiation, the formulation, and the implementation of trade policy, and furthermore, our proposal would recognize the important link between international trade and domestic industry activities, as American businesses compete more and more in the world marketplace and meet foreign competitors in the domestic marketplace.

The need for these changes is even greater now than it was last June. Our trade problems simply will not go away, no matter how much we wish this might happen.

So often, the point has been made that trade interests require an honest broker so that they receive proper emphasis. Mr. Chairman, an honest broker is simply not enough. We need an advocate for trade. An advocate for trade as a policy goal, not a policy tool.

The importance of our ability to compete in international trade is central to our future economic growth and our domestic welfare and our national security. During the 1980-82 period, declining exports accounted for 40 percent of the rise in domestic unemployment. Total trade in goods and services now is 22 percent of our GNP. Every $1 billion of that trade produces 25,000 jobs. Two out of five acres of our agricultural production is for export. Trade means jobs, and a healthy economy for the Nation, and the Government can play a role in improving the climate for exports in the global market.

We can strengthen our abilities in the area of industrial analysis. We can integrate the formulation of trade policy with the implementation of that policy—negotiation of our international agreements with the execution of those agreements. S. 121 can accomplish those goals. It would combine within one department machinery we need to develop, advocate, and implement an effective and forward-looking trade policy.

Mr. Chairman, the Government Affairs Committee made a number of changes to the bill during its consideration last October. In the interim, the administration has had an opportunity to consider carefully the work of the committee and reach a consensus view on the major issues presented. I would like to discuss these for a moment at this time.

The Government Affairs Committee adopted an amendment providing for the establishment within the new Department of an Office of Competitive Analysis. The amendment further provides that the Secretary shall establish, on the recommendation of this office, industry sector competitiveness councils, composed of representatives of business, labor, and industry, to make recommendations to the Secretary.

We are sympathetic with the committee's approach to getting advice from industry concerning our overall competitiveness. However, the administration believes that the existing Industry Sector Advisory Committee [ISAC] framework is well suited to this process. We therefore would substitute the existing Industry Sector Advisory Committee structure for the Competitiveness Council provisions, while clarifying that the function of the committees is to make recommendations, not to decide policy.

We agree with the Governmental Affairs Committee that trade issues need proper recognition in the area of national security. This is a valid concern. I wish to assure the committee of my personal interest in this area. Nevertheless, I cannot agree that the new Secretary should be a member of the National Security Council.

The Council is not primarily a trade-oriented body, and furthermore, I am satisfied that, to the extent necessary and appropriate, the new Secretary—or any Cabinet member for that matter—will have adequate opportunity to participate in the deliberations of the Council, and make his or her views known.

There is provision for such participation in existing law. Nevertheless, we would accept language in the bill expressing the intent of Congress that the Secretary be permitted to participate in deliberations of the Council where trade matters are involved. That is most certainly happening in actual practice now.

The Governmental Affairs Committee also added provisions to the bill creating the Council for International Trade, Economic, and Financial Policy. These provisions arose out of the committee's concern that trade issues should be properly coordinated at the White House level, and that they be properly coordinated with other issues as well.

This is a valid concern. We are sympathetic to it. The administration originally had proposed to build on the existing Trade Policy Committee as a means of streamlining and improving the interagency coordination process. We are pleased that S. 121 has adopted a similar approach. Under the bill, the President would be the chairman of the Trade Policy Committee, and the new Trade Secretary would be the chairman pro tem.

The Secretary of Agriculture would serve as vice chairman of this committee. In addition, the membership of the committee would be codified. The broad mandate of the Trade Policy Committee would remain unchanged, and we think this mandate is broad enough to accomplish the purposes intended by the bill. For these reasons, we believe that the need for an additional Cabinet-level body has not been demonstrated at this time.

I should also say that there are already a number of interagency bodies whose purview includes trade issues. In addition to the Trade Policy Committee, there is a Cabinet Council on Commerce and Trade, the SIG/IEP, and others. It is our view that these bodies can and ought to provide the kind of coordination and oversight which trade and international economic issues deserve, without our creating yet another body.

Nevertheless, Mr. Chairman, we are willing to study this question further and report back to the Congress, if necessary, on the need for further organizational changes. That, of course, would include looking at changing what we have now.

The reported bill also provides for the position of the adviser to the President for international trade.

We recognize that the President needs to have among his White House staff a trade element for coordination purposes as well as to ensure that he gets the full picture. It may be that the President ought to designate an office and a staff within the executive office for this purpose.

But the President also requires flexibility in his staffing arrangements. He should have enough flexibility to be able to staff in the manner in which he can work the best. It is our view that the President ought to be able to organize executive offices around his own needs and not have positions such as this established by law.

Let me discuss for a moment the agricultural issues raised by the bill. In designing its original proposal, the administration sought to combine the functions of the USTR with those of the new Secretary, while retaining unchanged the existing authorities and responsibilities of the Department of Agriculture.

I wish to make quite clear that the administration does not favor any modification of, and will not modify, the existing functions and responsibilities of the Department of Agriculture. We are pleased that the bill would emphasize Agriculture's role--by ensuring that the Secretary is consulted on any matter having even the potential for involving his Department, and by providing that the Secretary would be the vice chairman of all delegations negotiating agreements which touch on agricultural matters.

I might add that, under the bill, the Secretary of Trade may delegate his lead negotiating responsibilities to the Secretary of Agriculture in their entirety.

Therefore, in our view, the presence of an Under Secretary in the new Department would really be counterproductive. It is bound to cause confusion, both within and outside the Government, as to the proper role of the new Department, and would cut against the goal of undiminished agriculture responsibility.

We think the Department of Agriculture is doing a fine job in the area of agricultural trade, and the administration is strongly opposed to any provision which would disturb Agriculture's current role in this area.

The committee also added a provision requiring the submission to the Congress, under certain circumstances, of international economic competitiveness impact statements.

We obviously are also concerned—as is the Governmental Affairs Committee—that the President properly consider the effect of his actions on international competitiveness of our industry. However, the competitiveness impact statements are just not the way to go to achieve our goal, Mr. Chairman. This administration is trying to reduce the burdens of unnecessary paperwork inside and outside the Government. We are trying to deregulate industry so it can move faster and respond to changing situations. To add this requirement, with its built-in delays, to any action the President may want to take in the domestic or international arena really does not make sense in my view. So, we would like to see this deleted from the bill.

I would like to touch on two other issues raised by the bill, as reported by the Governmental Affairs Committee.

The first is the required study relating to a trade personnel system. This administration has taken a number of steps to upgrade and improve the administration of our trade laws, including the recruitment of highly qualified people. So, we are sympathetic to the reasons underlying this provision.

Our principal reservation is that it does not appear to offer the Secretary the degree of flexibility we think is appropriate in this area, particularly in making a determination as to whether an entirely new system is required. We would like to say that the subject merits careful study. We will look at it, but we do want some flexibility.

Finally, may I say a word about the office of Small Business Trade Assistance that would be established by the bill. The administration supports the establishment of the office because we think it will serve a useful purpose.

We are opposed, however, to the grant program called for in the bill. We think it would be too expensive in our view in this era of budgetary restraint. It would be difficult and complex to administer, and therefore, we are opposed to the grant program itself, while supporting the office.

In closing, Mr. Chairman, let me state that the administration remains strongly supportive of this proposal. We strongly support this bill with some of the modifications that I described.

The Governmental Affairs Committee has reported a responsible and much-needed bill. We look forward to working with this committee and other Senators to assure its prompt passage. Thank you, Mr. Chairman.

Senator DANFORTH. Thank you, Mr. Secretary.

[The prepared statement of Secretary Malcolm Baldrige follows:]

TESTIMONY OF MALCOLM BALDRIGE, SECRETARY OF COMMERCE

Mr. Chairman and members of the committee, I am pleased to have the opportunity to testify before this committee on S. 121, and on the urgent need to carry through on the President's proposal to establish a new department of international trade and industry.

The administration supports S. 121, as it was reported by the Senate Governmental Affairs Committee last October, with some modifications which I will discuss in a moment.

Mr. Chairman, on June 1 of last year, the President issued a statement at the White House concerning this proposal.

The President noted that the proposed new department of international trade and industry would allow this nation to fully develop its international trade opportunities and defend our international trading rights.

For the first time, a single cabinet department would be responsible for both policy making and policy implementation. This is the case with other executive branch departments, and, in the trade area, with many of our trading partners.

Our proposal would bring together the analysis, negotiation, formulation and implementation of trade policy. Furthermore, our proposal would recognize the important link between international trade and domestic industry activities, as American businesses compete more and more in the world marketplace.

The need for these changes is greater now than it was last June. Our trade problems will not go away, no matter how much we may wish this would happen.

So often, the point is made that trade interests require an "honest broker" so that they receive proper emphasis. Mr. Chairman, an "honest broker" is not enough. We have got to have an advocate for trade—an advocate for trade as a policy goal, not a policy tool.

The importance of our ability to compete in international trade is central to our future economic growth, our domestic welfare and our national security. During the 1980-1982 period, declining exports accounted for 40% of the rise is domestic unemployment. Total trade in goods and services now stands at 22% of GNP and every $1 billion worth of that trade produces 25,000 jobs. In 1982, our exports accounted for 5 million jobs within the United states. Approximately one out of every 8 U.S. manufacturing jobs is directly due to exports. Two out of every five acres of our agricultural production is for export.

Mr. Chairman, trade means jobs, and a healthy economy for the nation.

Government can play a role in improving the climate for exports in the new global market. We can strengthen our abilities in the area of industrial analysis. We can integrate the formulation of trade policy with the implementation of that policy; the negotiation of our international agreements with the execution of those agreements. S. 121 can accomplish these goals. It would combine within one department all the machinery we need to develop, advocate and implement an effective and forward-looking trade policy.

These institutional changes are essential to improving our trade situation overall.

Mr. Chairman, the Governmental Affairs Committee made a number of changes to the bill during its consideration last October. In the interim, the administration has had an opportunity to consider carefully the work of the committee and reach a consensus view on each of the major issues presented. I would like to discuss these for a moment at this time.

The Governmental Affairs Committee adopted an amendment providing for the establishment within the new department of an office of competitive analysis. The amendment further provides that, upon the recommendation of this office, the secretary shall establish "industry sector competitiveness councils," composed of representatives of business, labor and industry, to make recommendations.

We are sympathetic with the committee's approach to getting advice from industry concerning our overall competitiveness. However, the administration believes that the existing industry sector advisory committee ("ISAC") framework is well-suited to this process. We would therefore substitute the existing industry sector advisory committee structure for the competitiveness council provisions, while clarifying that the function of the committees is to make recommendations, not to decide policy.

We agree with the Governmental Affairs Committee that trade issues need proper recognition in the area of national security. This is a valid concern, and I wish to assure the committee of my personal interest in this area. Nevertheless, I cannot agree that the new secretary should be a member of the National Security Council. The council is not primarily a trade-oriented body. Furthermore, I am satisfied that, to the extent necessary and appropriate, the new secretary—or any cabinet member, for that matter—will have adequate opportunity to participate in the deliberations of the council and make his or her views known; there is provision for such participation in existing law. Nevertheless, we would accept language in the bill expressing the intent of Congress that the secretary be permitted to participate in the deliberations of the council where trade matters are involved. That is most certainly happening in practice now.

The Governmental Affairs Committee also added provisions to the bill creating the position of the council for international trade, economic and financial policy. These provisions arose out of the committee's concern that trade issues be properly coordinated at the White House level, and that they be properly coordinated with other issues as well.

This is a valid concern, and we are very sympathetic to it. The administration originally had proposed to build upon the existing trade policy committee as a means of streamlining and improving the inter-agency coordination process. We are pleased that S. 121 has adopted a similar approach. Under the bill, the President would chair the trade policy committee, and the new trade secretary would be the chairman pro tem. The Secretary of Agriculture would serve as vice chairman of the committee. In addition, the membership of the committee would be codified. The broad mandate of the trade policy committee would remain unchanged. We think this mandate is broad enough to accomplish the purposes intended by the bill.

For these reasons, we feel that the need for an additional cabinet-level body has not been demonstrated at this time. I should also say that there already are a number of inter-agency bodies whose purview includes trade issues. In addition to the trade policy committee, these include the cabinet council on commerce and trade, the SIG/IEP, and others. It is our view that these bodies can—and ought to—provide the kind of coordination and oversight which trade and international economic issues deserve, without the necessity of creating yet another body for this purpose. Nevertheless, we are willing to study this question further, and report back to the Congress, if necessary, on the need for further organizational changes. The reported bill also provides for the position of the advisor to the President for international trade.

Mr. Chairman, we recognize that the President needs to have among his White House staff a trade element for coordination purposes as well as to ensure that he gets the full picture. It may be that the President ought to designate an office and staff within the executive office for this purpose.

However, the President also requires flexibility in his staffing arrangements. It is our view that the President ought to be able to organize the executive office around his own needs and not have positions such as this established by law.

Let me discuss for a moment the agricultural issues raised by the bill.

In designing its original proposal, the administration sought to combine the functions of the USTR with those of the new secretary, while retaining unchanged the existing authorities and responsibilities of the Department of Agriculture.

I wish to make quite clear that the administration does not favor any modification of, and will not modify, the existing functions and responsibilities of the department of Department of Agriculture. We are pleased that the bill would emphasize agriculture's role—by ensuring that the secretary is consulted on any matter having even the potential for involving his department; and by providing that the secretary would be the vice-chair of all delegations negotiating agreements which touch on agricultural matters. (I might add that, under the bill, the Secretary of Trade may delegate his lead negotiating responsibilities to the Secretary of Agriculture in their entirety.)

Therefore, in our view, the presence of an under secretary in the new department would be counterproductive. It is bound to cause confusion both within and outside the government as to the proper role of the new department, and would cut against the goal of undiminished agriculture responsibility. We think the Department of Agriculture is doing a fine job in the area of agricultural trade and the administration is strongly opposed to any provision which would disturb agriculture's current role in this area.

The committee also added a provision requiring the submission to the Congress, under certain circumstances, of "international economic competitiveness impact statements." We obviously are also concerned, as is the governmental affairs committee, that the president properly consider the effect of his actions on the international competitiveness of our industry. But, competitiveness impact statements are just not the way to go to achieve our goal, Mr. Chairman. This administration is trying to reduce the burdens of unnecessary paperwork both inside and outside of government. We are trying to deregulate industry so that it can move faster and respond to changing situations. To add this requirement, with its built-in delays, to any action the president may want to take in the domestic or international arena really does not make sense in my view. So we would like to see this deleted from the bill.

Mr. Chairman, I wish to touch on two other issues raised by the bill as reported by the Governmental Affairs Committee.

The first of these is the required study relating to a "trade personnel system." This administration has taken a number of steps to upgrade and improve the administration of our trade laws, including the recruitment of highly qualified people, so we are sympathetic to the reasons underlying this provision. Our principal reservation regarding the provision is that it does not appear to offer the secretary the degree of flexibility we think appropriate in his conduct of the required study, particularly in making a determination as to whether an entirely new system is required. We agree, however, that this subject merits careful study, and we will look at it further.

Finally, a word concerning the Office of Small Business Trade Assistance that would be established by the bill. The administration supports the establishment of this office believing that it can serve a useful and needed purpose. We are opposed, however, to the grant program called for in the bill. This program would be expensive—too expensive, in our view, in this era of budgetary restraint. The program would also be complex and difficult to administer. We are therefore opposed to this program.

In closing, Mr. Chairman, let me state that the administration remains strongly supportive of its proposal, and we strongly support this bill, with some of the modifications I have described. The Governmental Affairs Committee has reported a responsible and much-needed bill. We look forward to working with this committee and other Senators to assure its prompt passage.

That concludes my prepared statement Mr. Chairman. I will now be happy to answer any questions you may have.

Senator DANFORTH. Mr. Tracy.

STATEMENT OF ALAN T. TRACY, DEPUTY UNDER SECRETARY FOR INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS, DEPARTMENT OF AGRICULTURE

Mr. TRACY. Thank you, Mr. Chairman.

I will just summarize if I might. We support the proposed legislation as so elegantly outlined by the Secretary of Commerce.

There are some items of particular interest to the Department of Agriculture that I would like to discuss briefly.

Within the Department of Agriculture—the Foreign Agricultural Service works with a number of agencies whose work bears on agri-

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cultural trade. Perhaps the most important of these is the Commodity Credit Corporation, which is the source of most Government agricultural export credit, and of all of the commodities that are used for overseas food donations and for other uses.

There is a growing awareness of the link between domestic farm programs and the export success of the United States. This has led to an increasingly close relationship between the Foreign Agricultural Service and the Agricultural Stabilization and Conservation Service, which administers the domestic programs. In fact, they both report—both of these agencies report—to the Under Secretary for International Affairs and Commodity Programs, as their efforts are very intertwined, and in fact, the groups that they are involved with are the same groups on both the domestic side and the foreign side.

In addition, the Foreign Agricultural Service works closely with the Department of Agriculture agencies that are responsible for food and veterinary inspections for both the import and the export of products. The interests of these agencies—of the Agricultural Service, of the farm and business communities that they serve—all overlap, and it would be counterproductive to move the Foreign Agricultural Service outside of the Department of Agriculture as proposed in S. 121.

In fact, I think it is unrealistic to attempt to remove the role in international trade from the Department of Agriculture. Similarly, we feel that establishing an Under Secretary of Agriculture in the new Department, as reported by the Governmental Affairs Committee, would be redundant and would work against the objective of streamlining U.S. trade regulations—or trade operations.

Mr. Chairman, I would again like to express the USDA's support for the proposed legislation and emphasize the importance to U.S. agriculture of retaining for the Department of Agriculture its authority in market development. Our market development program was based on almost 30 years of experience. It has been developed by the USDA in the private sector for over 25 years of shared trial and error. It is very unique. It is effective. And it is highly regarded by the agricultural community. Thank you.

[The prepared statement of Deputy Under Secretary Alan T. Tracy follows:]

Statement by Alan T. Tracy, Deputy Under Secretary, U.S. Department of Agriculture

Mr. Chairman, it is a privilege to appear before the committee to discuss agricultural trade and trade policy and express the Department's support for the Administration's proposal for the creation of a Department of International Trade and Industry. No subject is more important than trade to U.S. agriculture which has come to depend heavily on exports as a source of income and growth. During the 1970s and into the '80s, U.S. agricultural exports nearly tripled in volume and went up six times in value.

Our farmers, who once derived about 10 percent of their income from exports, now depend on foreign sales for one-fouth of their marketing returns. The harvest from one-third of their cropland moves into export.

Farm exports went down last fiscal year, and while we expect a little higher value of exports this fiscal year, the recovery from recession in other nations is behind the United States. The global economy, the dollar, third world debt problems and other factors bear on industry as they do on agriculture. But agriculture faces the added problems of global overproduction and serious trade distortions, largely caused by competitor export subsidies and border protection.

The Department of Agriculture, with the help of the Congress, the Executive Branch, and the private sector, has acted to meet this situation in a number of ways.

In addition to the record level of export financing last year, we have announced an additional $1 billion for a total of $4 billion in commercial export credit guarantees in FY 1984; we have continued the blended export credit program and we have sharpened and boosted funding for our market development activities.

We have, in a concerted Administration effort, strongly urged by word and action Japan and the European Community to alter their unfair trading practices. Both are leading markets, and the Community is also our leading competitor.

Blended credit has been an outstanding success. It combines direct, interest-free credit from the Commodity Credit Corporation with CCC commercial credit guarantees to finance export sales of U.S. farm products.

Since the beginning of the program in 1982, blended credit has been approved to finance sales of more than 6 million tons of agricultural exports.

Last year, we opened a U.S. Agricultural Trade Office in Jidda to promote the sale of U.S. farm products in Saudi Arabia, the largest agricultural market in the Middle East and the fastest growing market for value-added products. This month, Secretary Block announced the opening of our ATO in Algiers.

This is the 12th trade office to be opened since the Congress, in the Trade Act of 1978, authorized their use and mandated that at least 6 of the offices be established.

The Trade Act is one of many legislative tools for agricultural market development that have been provided by the Congress, going back to the Trade Development and Assistance Act of 1954, or PL 480, which provided the mandate and the funds for expanding U.S. agricultural exports.

PL 480 provided the basis for the Department to establish a market development relationship between the government and the private sector that remains unique in the trading world today.

I am referring to our cooperator market development program. Market development cooperators are non-profit U.S. commodity organizations that work overseas with the Department's Foreign Agricultural Service to develop markets for their own commodities.

Export expansion activities in foreign markets are planned and funded jointly by FAS and the cooperators, who execute the projects.

The cooperators apply private sector expertise representing all aspects of their business—production, processing, marketing—to expand the use of U.S. farm products in foreign markets.

The program has grown from a single wheat cooperator working in Japan to more than 50 full-time cooperators with projects in about 80 countries promoting almost the whole spectrum of U.S. agricultural products.

And the program has changed as it has matured. The private sector share of funding has increased, and cooperator administrative autonomy has been enlarged. Financial participation by USDA has doubled in 10 years while that of the cooperators has gone up by more than three times.

We have also developed pinpoint planning, in which FAS commodity specialists, cooperators, and U.S. agricultural attachés and counselors work together to determine what activities would be most effective to expand the export of a given commodity to a given country.

Pinpoint planning with the cooperators has cemented an already close relationship betweent the Department of Agriculture and the private sector. It is a relationship in which commodity specialists from each cooperator group work one-on-one year around with their counterparts in FAS, and the leadership in the cooperator organizations has ready access to the leadership in USDA.

We value this relationship highly and the work of these cooperator groups speaks for itself. The wheat cooperator, for example, was largely instrumental in moving the populace toward wheat consumption in their daily diet in Japan, which today is a more than 3-million ton annual customer for U.S. wheat farmers. Cooperator showed governments and farmers in the European Community that soybean meal could be more efficient than fishmeal in livestock rations and the Community today buys close to $4 billion worth of U.S. soybeans and products a year.

Cooperator feeding trials helped boost exports of U.S. corn to South Korea and the level of 3.8 million tons, and cooperators are active today in China, providing the basic education and technology necessary to develop that huge potential market for U.S. wheat, feed grains, soybeans, seeds and other products. In FY 1985, we have asked for an increase of about $4 million in the cooperator program.

Within the Department of Agriculture, the Foreign Agricultural Service of necessity works closely with several agencies whose work bears on agricultural trade.

Perhaps the most important of these is the Commodity Credit Corporation, which is the source of most government agricultural export credit and of all commodities for the overseas food donations for other uses.

The growing awareness of the link between domestic farm programs and export success has led to an increasingly close relationship between FAS and the Agricultural Stabilization and Conservation Service, which administers domestic programs. In addition, FAS works closely with Department of Agriculture agencies that are responsible for food and veterinary inspections for both import and export of products.

The interests of these agencies, FAS, and the farm and business communities they serve overlap, and it would be counterproductive to move FAS outside the Department of Agriculture as proposed in S. 21.

Elsewhere within the government, our export programs and activities have benefitted from the cooperation of other departments and agencies in the Executive Branch.

We consult with them and work with them in matters of trade access, competitor practices, and the execution of programs to expand agricultural exports.

This cooperation has been particularly close with the U.S. Trade Representative in developing and implementing trade policy strategies.

It is essential that this relationship be preserved, and we are confident that it will be under the provisions of the Administration's proposal, which would create a new Department of International Trade and Industry.

The proposed legislation would leave the market development role and functions of the Department of Agriculture unchanged, and we believe that the provisions that would designate the Secretary of Agriculture as vice chairman of the President's Trade Policy Committee and permit him to be designated as trade negotiator for agricultural commodities makes an important contribution to the President's initiative to better integrate trade policy and trade implementation. It can be of great benefit to U.S. agriculture.

That being the case, establishing an Under Secretary of Agriculture in the new department would be redundant and work against the objective of streamlining U.S. trade operations.

In closing, Mr. Chairman, I would like once again to express USDA's support for the proposed legislation and to emphasize the importance to U.S. agriculture of retaining for the Department of Agriculture its authority in market development.

Our market development program is based on almost 30 years of experience, and has been developed by USDA and the private sector over 25 years of shared trial and error. It is unique, and it is effective.

That concludes my statement, Mr. Chairman. I will be glad to respond to questions.

Senator DANFORTH. Mr. Tracy, I think that your testimony has very clearly pointed out the fallacy of the whole bill. That is to say, you say that this is all well and good so long as Agriculture is counted out. We don't want Agriculture's voice being taken over by the Department of Commerce.

And I think you have recognized, in your testimony, implicitly, maybe, that the interests of Agriculture in international trade are not necessarily the interests of heavy industry in international trade. That there is going to be a difference of approach, witnessed as recently as last year with the Chinese textile situation. It is my understanding that Agriculture had a very clear position and that the Commerce Department had an alternative position, which was in conflict with the Department of Agriculture, and it was really for the USTR to try to broker the two positions and to pull Agriculture's chestnuts out of the fire. Am I correct?

Mr. TRACY. I don't think so. Maybe you would like to comment, Mr. Secretary.

Secretary BALDRIGE. Our interests were not different. I think the best way to address that question, Senator, is to say that we have to—when I say we, I mean the administration—take into account everything affecting our overall relationship with China, and we did.

The Chinese said that they would do this if this happened. I think they have a perfect right if that is the way they want to conduct their foreign relations, but we can answer in any way we see fit as an administration, and we did.

I don't see that as a problem. I further think that the Department of Commerce recognizes that in the case of Agriculture, the FAS has worked so well and the present USTR/Agriculture relationship on negotiating has worked so well that there is no reason to disturb that—no reason in the world.

Senator DANFORTH. This bill is opposed, Mr. Secretary, as far as I know, by virtually every agricultural group in the country.

Secretary BALDRIGE. That is not true. That is simply not true. The corn growers—I don't have a list of them right here, Senator, but——

Senator DANFORTH. I do.

Secretary BALDRIGE. I do have the statement of the Midwestern Governors' Conference last October. Those are the 13 Governors of the Midwestern farm States, including your own—this is their statement.

"International trade is vitally economic to the well-being of the Midwestern States who face increasing barriers in overseas markets. Also, protectionism in Midwestern States. The United States clearly lacks a defined trade policy. The Midwestern Governors' Conference supports legislation to reorganize the trade function of the U.S. Government and create a new Department of International Trade and Industry" and so forth.

Now, those are the Governors of 13 farm States.

Senator DANFORTH. The bill in its present form is opposed by the American Farm Bureau, the National Grange, the American Soybean Association. It is opposed by the National Association of Wheat Growers, the Poultry and Egg Institute, the National Soybean Processors Association, the Millers National Federation, the U.S. Feed Grain Council, the National Cattlemen's Association, the Grain Sorghum Producers Association, the National Forest Products Association, and it goes beyond agriculture.

Even though you have kept the Agriculture Department out of it, they view it as a threat because they see the handwriting on the wall that Agriculture is going to be co-opted in its export efforts by an administration which is going to become increasingly protectionist because the Commerce Department which is the voice of heavy industry and traditionally the voice of protectionism insofar as there is one in the administration—is going to be taking over trade negotiations and trade policy matters.

Secretary BALDRIGE. Senator, I couldn't disagree more with everything you just said. The Commerce Department is not increasingly protectionistic. I would say that 85 percent to 90 percent of the businessmen in the United States of America are free traders.

Certainly there are some declining industries that want more protectionism, but close to 90 percent of the businessmen are for free trade. We see that time and again, and I think it is really amazing in a way that in a year where we are having $100 billion trade deficit, we have seen very little in the way of protectionist steps taken by the United States. We have seen very little, Senator. Now, there is no way to show that, in a new department, where—I emphasize—the USTR will be the Secretary, and vice versa, that department will become a protectionist agency, unless the President of the United States is a protectionist. If he is a free trader, it will be stronger for free trade. If he is a protectionist, it will be stronger for protectionism. It is an executive branch department. There is nothing in the organization itself that demands it be one way or the other, with the exception that most of the businessmen are free traders. Their business depends on it.

Senator DANFORTH. Senator Roth?

Senator ROTH. I think, Mr. Secretary, you make a very important point, in the sense that whether the administration is going to be protectionist or a liberal trader—or whatever you may want to call it—is going to depend upon the policy of that administration.

So, what we are trying to provide here by reorganization is a strong advocate for that policy. Now, I happen to be a strong believer in liberal trade policy, and I think we have built into the system something that will promote that, but I would just point out one thing. It is wrong to say that this structure will in and of itself decide future policy. The next election will decide that.

Now, let me point out with respect to Agriculture that it is important to understand that essentially this proposal is making no change. The core of the new department is a USTR who is part of the office of the Secretary. So, we are keeping that elite professional group there. The relationship between the Secretary of Agriculture will be the same with that USTR.

I would also point out that we have written into the law that any negotiations that involve agriculture—the Secretary of Agriculture will be the vice chairman—or as you pointed out—he could even be the chairman, if it is basically agriculture. So, we built into the law protection for Agriculture, which does not want to be included as part of the new Department.

Let me just make one other observation for my colleagues that I made earlier, because I think it is important for them to understand. In reporting this legislation from the Governmental Affairs Committee, we did ensure that the role of the Finance Committee is maintained. The Secretary of the new Department would come before this committee for confirmation.

We have had that confirmed by the Parliamentarian. I think that is an important fact to be understood. But I would like to go back, Mr. Secretary, and ask you two or three questions, if I may.

One is that the statement has been made that organization in and of itself is not important, and that it would take too long to implement at this time when we have other more pressing problems. Now, I have never claimed that organization is any solution, but isn't it true that it is one leg of the table? That good organization is necessary for strong policy?

Secretary BALDRIGE. I would say 35 years of experience with working in organizations has led me to the firm conclusion that you can't get from here to there without the right organization. An organization or lack of an organization can destroy your effectiveness and ability to carry out whatever program you want to carry out.

Now, that doesn't mean that, if you have a good organization, and you don't have the right program, things are going to work either. But it is a *sine que non*. You simply can't get from here to there without being organized to do so. I think that is so obvious—at least to me—that I maybe haven't spent enough time on it.

Senator, I think the chairman said that, as matters now stand, the Congress meant to give all of the trade matters to the USTR. I can't agree with that, Mr. Chairman, because Congress clearly gave the Department of Commerce export promotion, industry analysis, export controls, and our antidumping countervailing duty laws. But is also gave the USTR sections 201 and 301. It gets us in the ridiculous position of often having to decide where policy implementation ends and the making of policy begins. Those gray areas can be very difficult to figure out. We administer some trade laws. USTR some others. Therefore, foreign governments and businesses shop around.

The perfect example of that is the steel business. Last year, the steel cases were brought. Carbon steel was 95 percent of the industry. Specialty steel was 5 percent. Specialty steel started with carbon steel coming to us under the countervailing duty laws. They decided during the process to leave, go to the USTR, and put a 301 in. Then they saw that we were going to get an arrangement with a countervailing duty. So they came back and wanted to get in under that. It was too late to do it then. The Europeans couldn't agree to it, so they went back and ended up with a 301, 201.

Now, that is all the steel business. It is just two different parts of the steel business. They can go back and forth. That is no way to organize anything. Policymaking and policy implementation have to shade into each other because, if the implementation is impossible, you have to change the policy, and vice versa. It should be in one place.

Senator ROTH. Could I, Mr. Chairman, just ask one followup question because I think it is very important to bring out the division that now exists and fully understand what that means.

The way it works now is you have got in the Commerce Department responsibility for collection of facts and figures. Then, you move over to USTR, which has responsibility for policymaking. Those two factors are very interrelated because your policy often depends on what you learn as to the factual situation. Yet, they are two different agencies.

Then, you go on to the negotiations. That is the responsibility of the USTR, with the Commerce responsible for the administration of those laws. Again, when policymaking, negotiations, and administration begin, it is extraordinarily difficult to differentiate responsibility. And as I said, both members of this administration in testimony before Governmental Affairs, as well as the witness who served in the Carter administration, said that this confusion meant that large portions of the time of their top officials—10, 20 percent—had to be spent trying to sort it out and that it creates chaos and turf in-fighting.

Secretary BALDRIGE. I think that the problem—one of the problems at least—is that people like—and I like the phrase myself—the idea of a lean, mean trade organization. The trouble is—and I learned this in some of the battles I was in before I came to Washington—you can't always be mean if you are too lean. USTR has 130 people at the most. Now, I heard somebody make the statement today that that was getting to be too much of a bureaucracy. Well, in all of the difficult interagency decisions that have to be made in the U.S. Government—where the USTR is supposed to have the lead on policy, as was correctly stated—where you get into things like what effect the dollar is having on trade, how do you know what effect sanctions will have? When you are in the interagency discussions that go on that are of tremendous importance to trade, you just don't have the backup—the muscle—behind an organization that is too lean.

By taking the parts of Commerce that do have that backup that make up our GNP, that make up leading indicators, do industrial analyses, and so forth, by having that in the same department with the USTR as the head of it, then there is no dichotomy. Then, the same Cabinet-ranked USTR/Secretary is in charge of an organization that has the muscle to stand up to Treasury and State and Defense if he thinks they are wrong—he may not always win, but he will have the background and the backing to be able to do that.

Now, industry groups go around and broker as I have described. They very nicely call on everybody, and that is the reason for my statement regarding the lowest common denominator. Our trade problems are too important now. You know, 20 years ago that was all right. Now, with $100 billion deficit, it is just too important. We can't handle things that way.

Senator DANFORTH. Senator Bentsen?

Senator BENTSEN. Thank you very much, Mr. Chairman. I think the example of what happened on specialty steels where it went to the White House and they were talking about a 301, and then they, in turn, seem to lead them to the ITC for a 201—and that takes 6 months at least to accomplish to get relief there. I think that is the sort of thing that we ought to be trying to avoid, and we do need some kind of a combined effort in this process.

Let me ask you in particular why you are objecting to this: There must be more to it than what you have stated here. Why are you objecting to the required study relating to trade personnel systems? I don't see where that is restrictive. It seems to me that gives you a great deal of latitude. I know that I have gone to a number of these negotiations where we can have some very bright people there representing us, but they don't have a long history of experience. And I have listened to the other side talk about things that happened 10 years ago or 15 years ago—agreements made then—and the long experience—and all they felt they had to do was to wait until another set of our people showed up at the next negotiation—that they would just outwait them. And I would really like to see us move away from that and have some people that have the experience and have the kind of salaries and have the kind of background where this is what they are seeking and it is not just a stepping stone to some other position.

I would like us to do what has to be done in the way of upgrading the qualifications and the tenure of those people. I don't understand your objection to the study.

Secretary BALDRIGE. I don't have any objection, Senator. I agree with what you say. What we were objecting to was the apparent requirement of the bill that we create the equivalent of a new Foreign Service group with the same kind of organization, the same kind of rules.

While I agree with everything you have said, I would like the flexibility of studying how best to work that from the Commerce Department's point of view, which may not be the same as the setup that the State Department has.

Senator BENTSEN. I don't have any objections to that, but the bill itself puts those kinds of limitations on you and the study. Is that what I am to understand?

Secretary BALDRIGE. Yes, we felt it did, Senator, but I would be glad to go back and study that because we both want the same end result. I just want enough flexibility so that I don't get tied down on specifically how to do it. But we will come back and report on that to the Congress.

Senator BENTSEN. Let me ask Secretary Tracy something here. In talking about another round of GATT talks, one of the things obviously that has to be discussed is subsidies, which really weren't dealt with in GATT as it is now structured. I thought what we did in Egypt with the wheat flour sale was something that got their attention—made them understand that two could play at that game. It might really bring them to the negotiation table when we do have another round of GATT in dealing with subsidies.

What is the attitude of the Department concerning future actions in that regard?

Mr. TRACY. We have none contemplated at this time, Senator, but we certainly reserve the possibility of taking further action. At this point, our negotiations are very sensitive on both subsidy issues and on the issues of cap reform, which I think you are familiar with—proposals by the European Community to restrict importation of—and feed, for instance, so these things are all very inextricably entwined and at a very sensitive point right now.

Senator BENTSEN. I might ask the Secretary—Secretary Baldrige—on the question of the private sector advisers—I note in a report on trade reorganization issued last August, the Advisory Committee trade negotiations—and that is the pinnacle, as I understand it, of this advisory network—they stated that the status of this entire Advisory Committee system—and that is some thousand private sector advisers—and the access and role of the private sector in trade policy development generally is in doubt, in all reorganization proposals. And yet, I know that they were very helpful in the Tokyo round.

In all candor, I don't want too much insulation for whoever is negotiating for us, and when you state something about you think what we need is an advocate—so do I. And they need that kind of an input. I would like to know what role you would expect him to play?

Secretary BALDRIGE. As great or more important a role as they play now, Senator. I don't know who said—I don't think that was my statement or the administration's—that the Industrial Sector Advisory Committees' role is in doubt. It has never been in doubt. We depend on them a great deal. As a matter of fact, we use them more and more as time goes on and things get more complicated.

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There would be no question about the continuing and increasing importance of those ISAC's.

Senator BENTSEN. Thank you.

Senator DANFORTH. Senator Long?

Senator LONG. Mr. Chairman, I have more than 5 minutes worth of questions. I think I will just pass now and come back in later on.

Senator DANFORTH. Senator Moynihan?

Senator MOYNIHAN. Thank you, Mr. Chairman.

I had a statement about my S. 21, introduced on January 26, 1983, which I would like to put in the record.

Mr. Secretary, you are surely right that organization is fundamental to the functions of Government. Freud said that anatomy is destiny. And organization is policy in so many fundamental ways.

The present organization of trade functions of the U.S. Government arises from a period when American competitiveness in the world was a given, and when we had to do little to advance or ensure our world position. We have seen the effects of this organizational arrangement the last 3 years. I hope all the members of this committee read the passage in the Economic Report of the President—the Council Report—that, said that, measured against a basket of 10 major currencies with which we trade, the dollar has appreciated 52 percent since 1980.

That is an export tax of 50 percent and about a 35-percent import subsidy. No sane government could let that happen if it were organized to think, and act, about the problem.

And we are not organized to confront the problem. We have scattered trade functions in eight different Cabinet departments and six independent agencies. It seems to me—and I think what the chairman of the subcommittee believes that we have got to organize. It might take us a decade, or perhaps even a generation, to overcome the overvaluation of the dollar in the last 3 years. We may have lost some markets permanently. Our most competitive industries are the ones that export, and these industries are the ones with the greatest burden, because the appreciation of the dollar has increased their prices by 50 percent in foreign markets.

But what concerns me and what concerns, I think, the chairman is that unless you bring into an organization of government those interests which are export-oriented, you will drift into a department which advocates trade protection, not promotion. You won't mean it. You won't plan it. It won't be your purpose at all. But the protectionists will be the clients of the Department and the protectionists will be those who get the assistant secretaryship positions when administrations change and new officials come to Washington. I wonder if you don't think that the proposed structure of the new Department of Trade would be a problem?

Secretary BALDRIGE. I would, Senator, if U.S. businessmen were protectionist, but no matter how many times I say this, I see some raised eyebrows—I want to tell you, Senator, honest and truly, you can make any survey you want. It will come out the same every time. Eighty to ninety percent of U.S. businessmen are free traders. It is in their own advantage to be so.

The National Federation of Independent Businessmen, the small businessmen in the country, have stated that overwhelmingly time and again. Large businesses, the ones that you get some protectionist surge from are the declining industries that, for one reason or another, or mature industries that haven't kept up technologically. Some of them have, but some of them haven't, and there will always be a cry for protectionism. Always. I mean, that is just in the nature of the industry.

But it is wrong to say that American businessmen are protectionistic. They definitely are not.

Senator MOYNIHAN. Mr. Secretary, I don't wish to interrupt you. I didn't say that American businessmen were protectionistic. I said that the concerns of those interests looking for protection will concentrate on this new Department as it is now proposed.

Secretary BALDRIGE. They are concentrated now, Senator.

Senator MOYNIHAN. I was one of the three people who negotiated the long-term cotton textile agreement for President Kennedy in 1962. Secretary Blumenthal, Hickman Price, and myself. The textile industry in this country is not a declining industry. It is a fairly prosperous industry, and I am sure, to a man, the industry executives answer surveys saying they are for free trade. But, by golly, they got that textile agreement.

Secretary BALDRIGE. No, they wouldn't, Senator. The textile industry has had protectionism worldwide—not just the United States—but the industry worldwide. That is the only worldwide quota system we have got, and that should not be copied. That is a case in itself. I think the whole world would agree to that.

Senator MOYNIHAN. I don't disagree with you.

Secretary BALDRIGE. We have the kind of thing you are talking about—the pressures—now. For example, automobiles and steel. They both came to the Commerce Department. They both came to the White House. They wanted a local content bill passed. They wanted a steel quota bill passed. And you see the reaction of this administration and myself. We are strongly opposed to local content. We have strongly opposed the steel quota bill.

Senator MOYNIHAN. Let me make one point clear: I am not suggesting anything about your personal views, which are very clear and straight, and, I might add shared by many members of this committee.

My point is that the kind of organization you put together predicts the outcome of the effort. I strongly believe that your proposal creates too narrow an organization to fully reflect the interests of the United States in world trade. But that is my opinion and I am sure that others on this committee have differing views.

I thank the Chair, and I thank you, Mr. Secretary. I didn't want to suggest anything personal in my remarks.

Secretary BALDRIGE. Oh, no. I wasn't taking that personally. I am just practicing up for a speaking career, I guess. [Laughter.]

Senator DANFORTH. I know I have another question to ask, but I think Senator Long's chance is past due now.

Senator LONG. I would just as soon wait until you ask your question. I have some questions here which will probably surpass my 5 minutes, so I will wait.

Senator DANFORTH. All right. Mr. Secretary, Congress has already spoken. Congress has spoken in something like three different trade acts. And what Congress said was that we want an office in the Office of the President which will have the responsibility for creating trade policy and for negotiating trade agreements.

Now, that was to be the USTR and the USTR chairing the Trade Policy Committee. That was what Congress said—in its wisdom delegating its responsibility under the Constitution—its responsibility over international commerce. So, the Trade Policy Committee was created. Statutorily, the USTR was the chairman, the Secretary of Commerce was the vice chairman, and the other members were to be the Secretary of Agriculture, Secretary of Treasury, Secretaries of State, Labor, Defense, Interior, Transportation, Energy, Justice, OMB, CEA, NSC, IDCA.

Comes now the Reagan administration and creates not by statute but on its own initiative a Cabinet Council on Commerce and Trade, chaired by the Secretary of Commerce. The members being USTR, Agriculture, Treasury, State, Labor, Transportation, Energy, Justice, and CEA. The same members minus two or three.

Now, we say in Congress that we want the USTR to be the negotiator and the USTR to be the policymaker. So, the USTR enters into a variety of negotiations. It enters into a negotiation with the Japanese relating to NTT. The Commerce Department then jumps in and enters into a separate set of negotiations with the Japanese relating to NTT. USTR negotiates with the Japanese on targetting. Commerce jumps in and negotiates on targetting. USTR negotiates on high tech. Commerce negotiates on high tech. Is it any wonder that other governments start shopping around and U.S. industries start shopping around, with different trade policies and different negotiators?

You go down to Mexico City on January the 23d and announce the U.S. Government's support for a bilateral commercial agreement between the United States and Mexico. You act as the spokesman on international trade. That was not the USTR. It was not cleared by the Trade Policy Committee. The Trade Policy Committee's consensus on what to do about the Chinese textile case was overturned by the Cabinet Council on Commerce and Trade, and I am told that the Commerce Department made available to Taiwan a memo stating its opposition to the investigation being conducted by USTR under 301 of Taiwan's subsidized rice exports.

So, in other words, Congress has acted. Congress has said who we think should make policy and who we think should negotiate trade arrangements. And then, the administration decides—as I said earlier—to put a second quarterback on the field at the same time. Now, my question to you is—if Congress acts again and we pass another law and we set up another name for a Cabinet Council and if we create a new Department of Trade, which we say is going to have responsibility for creating trade policy, what is to stop another administration—say the Mondale administration, or the Glenn administration, or the Hart administration—from having a Secretary of the Treasury who says that he wants to get involved in trade policy so that a new interdepartmental council is set up of the same Cabinet members, chaired by the Secretary of Treasury, who then commences on his own a series of negotiations and a series of pronouncements on international trade? Why wouldn't we be right back to where we are now, except for the fact that we would have gone through a couple of years of moving people's offices and moving people's desks around?

Secretary BALDRIGE. Mr. Chairman, may I have your permission to take your last question and be able to rephrase it, or at least add a phrase? You say, the allegations that I made are correct—NTT, high tech, Mexican trip, and so forth. You have put your finger right on the problem that we run into time after time, and any future administration would run into it the same way.

Let me take them one at a time. The NTT Agreement was a 3-year agreement. In the wonderful organization of the U.S. Government, USTR is responsible for negotiating that agreement. The Department of Commerce is charged with implementing the agreement because we have the expertise—the technical expertise—that you can't expect the USTR to have with the size of the organization he has—100 plus people. We have NTIA [the National Telecommunications and Information Agency], that did a lot of work on the telephone bill. We are involved in all the technical aspects of that. Therefore, we are involved with the implementation of the agreement.

So, when the negotiation time comes up for the new NTT Agreement, the first question you have to ask is does it work? Has it worked? What are the opinions of the people who have been working on the implementation and the industries involved?

And that is why we were involved in that. And in any future administration, if they had any commonsense, they would have to go the same way. You have to go where the expertise is.

On the high-tech working group with the Japanese, the same thing all over again. Again, the dichotomy. The USTR is a negotiator. Nobody is disputing that. On the high-tech working group, you get into tremendously complicated kinds of high technology where that knowledge can either make or break you in negotiation. It is not simple. Therefore, with agreement of the USTR, the USTR and Commerce are joint chairmen of the high-tech working group, and it is just as appropriate for one or the other to speak up because of that setup, and that was agreed to by the USTR.

You stated that I went down to Mexico and gave a speech before the American Chamber of Commerce there in which I said that they ought to take more U.S. investment, ease up on their investment laws—which I am glad to say they have done—and that they shouldn't subsidize. Now, if there is anything in there to upset Congress or another Government agency, I would be very much surprised.

The fact is, again, that most of the difficulties we have had with the Mexicans have been with their constant subsidization of exports to the United States. We are responsible at Commerce for the countervailing duty laws and antidumping laws. The USTR is responsible for negotiations. Therefore, Bill Brock and I agreed to be cochairmen of the Joint Commerce and Trade Commission with Mexico, and we have been joint chairmen for 3 years.

And we can both speak, but we arranged it that way because so much of that responsibility is in the Commerce Department. You can mention case after case after case, but you bring up those cases, Mr. Chairman, and I think that proves the point I have been trying to make. There is no way for this or any other administration to isolate either Commerce or the USTR in one of these plastic bubbles that will allow no outside germs to get in and keep them pristine or whatever the original intent of Congress was.

I would say if something could work better, that we would be well advised to look at it, and that is the reason for our proposal.

Senator DANFORTH. Senator Roth?

Senator ROTH. Mr. Chairman, I have no questions at this time. I may later, but I have nothing further at this time.

Senator DANFORTH. Senator LONG?

Senator LONG. Mr. Secretary, I think all of us have a right—at least from my point of view—to complain about the way this is working as of now. Do you think it is in our national interests for us at this point to be running a deficit of $100 billion a year in our trade account?

Secretary BALDRIGE. Not with 25,000 jobs per billion. That is 2½ million jobs.

Senator LONG. That is the point I was going to get to. I just noted that down. Now, I think—and some people will say you are losing more than 25,000 jobs per billion—but let's just take that figure, because I think that is a conservative figure. That is 2½ million jobs we are losing with $100 billion a year deficit in our balance of trade.

As far back as I can recall—and I think this started about the end of World War I—back about the time I was born—we always had a lot more money invested in other countries than they had invested here. Now, these big deficits will turn this thing around so we will be a debtor nation even though we are the richest nation on the face of the Earth. Now why should we do business that way?

Secretary BALDRIGE. We will be a debtor nation by 1985 or 1986, at the present rate.

Senator LONG. Now, can you explain to me what in the name of commonsense do we have being a debtor nation when we are one of the richest nations on the face of the Earth, on a per capita basis?

Secretary BALDRIGE. Because of our trade deficit and our Federal deficit overall.

Senator LONG. Doesn't it make sense that they ought to be owing us money rather than us owing them money? Here we are borrowing money from poor countries to keep going. Now, what kind of sense does that make?

Secretary BALDRIGE. With a $100 billion trade deficit, the money has to come from the outside.

Senator LONG. Now, part of this problem, of course, has to do with our situation with Japan. Their policies assure their producers that they have a lower interest expense and then they have a marketing advantage because we have great difficulty selling into their market. Furthermore, they have a currency exchange rate which keeps their currency valued at anywhere from 20 to 40 percent below our currency. Is that correct?

Secretary BALDRIGE. The yen has swung, and I think the relative values are wrong. I think the yen is undervalued compared to the dollar. We truly, Senator, cannot find that the Japanese are deliberately manipulating the yen to keep that same ratio. I can't make that statement. But the yen-dollar relationship is hurting us, and the same is true of the mark, and the franc, and the lire—as a matter of fact, to an even higher degree than the strength of the yen against the dollar.

Senator LONG. Now, not trying to tie you to any particular policy, but could you give me some indication as to how that matter could conceivably be handled if someone had the authority to do it—to get that matter straightened out?

Secretary BALDRIGE. I think the first and foremost thing we would have to do is to get the Federal deficit down, Senator, on the theory that that would get interest rates down. Lower interest rates are what would help us in that ratio between the dollar and other currencies. The fact that the deficit is so high is holding those interest rates up, in my opinion.

Now, there are other reasons, of course, why money is coming into the United States and keeping the dollar so high. One of them is that this is a relatively secure economy. People think that the recovery will keep on. They have a good chance of holding inflation down. It is a safe haven compared to a lot of the rest of the world, but there is nothing we can or should do about that part of it. But we can get the dollar down if we reduced our deficits, and that would help us in our trade deficit also. I don't know of another way except one that would be very short term, and that is intervention, which we have decided against—except in the disorderly market case—because there simply isn't enough money to intervene effectively over a long range of time. We have negotiated with the Japanese an agreement where they will do more to nationalize the yen, but the results of that will be very slow in coming.

Senator LONG. Mr. Secretary, I don't see how, the way we are doing business—and I don't see that you are recommending any significant change in it—I don't see how we are going to get from where we are to where we need to be. I don't think you can negotiate away the $20 million a year deficit that you will run with Japan this year. They sent the Prime Minister over here. It looked to me like what he was suggesting that Japan would do—or what he tried to agree to—in a relative term wouldn't have been enough to fill an eyedropper, and notwithstanding all that, when he went home, they wanted to dress him out of office, and he had to retreat from what he said he would do.

And it seems to me that if we are going to get out of this kind of a trap, this Nation is going to have to do some things unilaterally that we would be accused of being a protectionist for doing. Now, after World War II—at a time when we were the richest and everybody else was relatively poor compared to us—we agreed to this thing in the General Agreement on Tariff and Trade that they could give back, refund, those value-added taxes at the border, and then when we sent something to their market, they could charge it to us. If you take an 18-percent value-added tax—and there are some as high as 20—then a 20-percent tax rebate when their article leaves their shore headed this way. That is enough to pay for the insurance and the freight and give them a 10-percent subsidy. Then, when we send something in their direction, they have got a 20-percent tax waiting for us—all on the basis of uniformity—we don't have any rebate. What rebate do our people get when they send something to Europe?

Secretary BALDRIGE. They had DISC, but they have been complaining about that. I agree with you.

Our DISC was supposed to offset their rebate in fact.

Senator LONG. That would cover about 3 percent of it, I would guess. What would you guess?

Secretary BALDRIGE. Maybe 5 or 6, but not more than that.

Senator LONG. So, it is a drop in the bucket compared, and they are raising a great smell about the DISC. Now, Mr. Secretary, I don't know how we are going to turn this thing around, but I am satisfied that whoever does it will have to do the kind of thing John Connally did when he was Secretary of the Treasury. Do you recall what he did?

Secretary BALDRIGE. I can't remember everything he did, Senator. I remember some of them.

Senator LONG. The upfront thing—the thing that attracted the most attention—was he started out by announcing a surcharge, didn't he? The 10-percent import surcharge.

Secretary BALDRIGE. That is right.

Senator LONG. He proposed the 10-percent imports surcharge on import coming into this country until we could get the balance of payments and trade deficit under control. Now, I think that is the way he started. Do you recall, Mr. Secretary?

Secretary BALDRIGE. Yes, I do. I believe it was not enacted.

Senator LONG. Please check that, Mr. Secretary. That was in effect for a while. And he used that to give himself some leverage to try to work out a better arrangement with other countries.

I am just saying that it seems to me that if we are ever going to get this thing under control, there has got to be some strong moves taken to tell some people that here is how it is going to be unless you want to help us work this thing out. We will have to do something to strengthen our hand because I just submit negotiating is not working. I supported these Presidents and these Secretaries of Treasury and all the rest of them—I helped to create the STR and wanted to make it a Cabinet-level. What have we achieved? We started out with about a $2 billion deficit and now we have got a $100 billion deficit. Now, obviously, on the face of it, what we have done is not enough.

I am just saying that we are going to—I don't see any choice but to face up to our problem. Now, this trade program has been sold to the American people on the theory that it was going to be—one—reciprocal. Two, it was going to be fair. And I submit to any fair-minded person that it is not reciprocal and it is not fair, and all you have got to do is look at the record to see it.

Now, someone is going to have to turn the thing around. I don't see how we can justify it with all these people out of work. We let people cheat on those rules in every way but loose, and we don't respond. Now, we have to look after our own interests.

Senator Herman Talmidge went over there to Japan many years ago—when he was on this committee—and complained about the situation, and they said are you criticizing Japan for doing what they are doing to create jobs and invade the American market? He said, I don't criticize the Japanese Government for one moment for looking after the Japanese people. What I criticize is our Government for not looking after the interests of our own people. If you want to know what the average worker thinks about it—if he knows anything at all about this—they are concerned about losing all these good jobs, and I see you are nodding. You are kind of concerned about that, too.

Is there any good reason why we shouldn't have a balance of trade and a balance of accounts in trading with the rest of the nations on earth?

Secretary BALDRIGE. That is obviously a very complicated question, Senator, and I don't want to duck it, but there are some other reasons besides what is happening under our trade laws. I will say this—having come from that sector—I don't think that the U.S. management was too shiny, particularly in the 1960's and 1970's. We lost a lot of competitive edge, and that includes some of the arrangements made with the unions. Labor rates went up higher than productivity did, but there was a lot of management fat and a lot of self-satisfaction. We were the best in the world and couldn't be overtaken. And we were overtaken on ridiculous things like quality. We never should have lost the quality leadership in the world, and that is a straight management fault.

We have got to get that back. We are getting it back. But some of those factors are reasons for this large trade deficit now. Some of them are just flat-out management's faults and labor's faults. Some of them are the result of past Government policies. We have put too much regulation on. We got involved in all of this inflation, and so forth. We didn't do enough to ensure that free trade is a two-way street, and I am particularly speaking of the Japanese there.

We have—despite some criticism from time to time—been a very free trade administration overall with the problems we have been facing, and I think that the Japanese are going to have to realize that free trade has got to be a two-way street, not a one-way street, or we can't keep it up. We have warned them. We have talked to them. We have spent hours talking to them about that, and we have warned them that if we don't see the kind of opening up cf their markets that we hope and expect will come this summer, then we can't predict what the Congress does.

Senator LONG. Mr. Secretary, if I were the Japanese, and America kept saying if you people don't treat us better, and give us a better break, the Congress might act; if I were told, "Congress is going to act, they are going to do something someday if you people don't treat us more fairly than you are doing now," then once I got those doors closed with those Americans out, I would say look, all they are doing is talking and it is just like a dog barking—let them go ahead and bark. Now, if they were to get around to biting, then we may have to talk to them, but meanwhile, just speak back softly and say, look, this is all right. We will talk about it, and we will think about it, and that is all I would give. I would give nothing but conversation as long as all you are getting is conversation from Uncle Sam.

But when you see some action over there, that is the time when you had better start taking a look at your hold card to see whether you want to accommodate those American interests.

I just want to mention one other item here if I can just take a few minutes, Mr. Chairman, and Senator Roth. Here is one little item that concerns Louisiana, because we are just one of the States that is going to get the worst of it. Several years ago, in my judgment, Secretary Schlesinger should have let that deal go through to buy that natural gas out of Mexico. The pipelines had signed the contract. They were going to sell the gas, and we were paying them a lot less for the gas than you are going to pay the Algerians and others. No, sir, Mr. Schlesinger said. I don't think he is that foolish—I just think he had some horrible advice by incompetent people over there in DOE. He broke up the deal, if you will recall. He said they can't sell the gas to anybody else.

The Mexicans—as you might expect—were outraged about it. They resented being treated like second-class citizens, and so they said we will just keep the gas and we will use it ourselves. What did they do? They borrowed money wherever they could borrow it—including our own banks—and proceeded to build these big chemical plants and put the gas into the chemical plants.

Now, they are selling the products of those chemical plants into our market. I don't know if you are familiar with how they sell it, but let me just say how they price it, from the best I can make of it. They price it just backwards from the way that we price our products. The selling cost goes in first. The transportation cost comes in second. Labor and the other expenses—that comes in their place—and the cost of the natural gas goes in last. If they have to price that gas at zero—and that is 70 percent of the cost in some cases—they will put it at zero if they have to to make sure of a profit in trading with us.

Now, I am told that the best advice we can get is that this administration does not plan to complain about that practice. If that is how it is going to be, then you might as well shut down every chemical plant we have got in America that is processing natural gas into a product. It is just a matter of time before you will lose them all.

The Saudi Arabians are in the process of doing the same thing with regard to refineries. And if we are not going to do anything to defend our interests, you might as well start shutting down our refineries because we can't compete if they are going to put the raw material in at zero cost.

Now, do you think that that kind of a practice is to be tolerated?

Secretary BALDRIGE. Senator, finally, we have come to a place where we can disagree. [Laughter.]

You know, we did take a look at that Mexican situation under countervailing duties on cement. The technical issue is this. Under the GATT [the General Agreement on Tariff and Trade] and under our trade laws, to find a subsidy, as was charged in the case of natural gas, we must find that the subsidy is used specifically for export for a certain category of industry.

That would make it a subsidy. If the Mexican Government sells natural gas to all industry—domestic and exporters—for the same price—so no matter what kind of a plant you are running if you used a certain volume, you would get the same price—even if that price is lower than the United States would charge—as long as they do it across the board to all industry, and not just for exporters, that is legal under GATT.

Senator LONG. Does Mexico abide by the GATT?

Secretary BALDRIGE. No, Mexico is not a signatory to GATT, but the way we have to define a subsidy is determined under our trading laws.

Senator LONG. All right. Now, we are talking about how we ought to do business. If they are not going to abide by GATT, why should we?

In other words, it is just like saying here is a rule of fair trade. The other guy is not abiding by it. If he is not going to abide by it, why should you let him put you out of business? You are playing by one set of rules and he is playing by another?

Secretary BALDRIGE. We then have to change it for every other country around the world, Senator. We see the comparative advantage going in favor of natural gas in Mexico and Saudi Arabia——

Senator LONG. Now, is Saudi Arabia abiding by the GATT?

Secretary BALDRIGE. No, to the best of my knowledge.

Senator LONG. No, they are not. Of course, they are not. Saudi Arabia is part of the OPEC cartel, Mr. Secretary. What I am saying is this, Mr. Secretary. If somebody chooses to play by the rule book when it suits his purposes, and when it doesn't suit his purpose, then he chooses not to play by the rule book—you have got no business letting him have all the advantages of it. And then when it is not to his advantage to follow the rules, he puts your people out of business. That is the point that we went into. This thing was supposed to be reciprocal. And if they aren't playing by the rule book, you shouldn't let them put you out of business holding you to a rule that they are not playing by.

Secretary BALDRIGE. To do what you suggest, Senator, we would have to change the law in the Congress.

Senator LONG. That is what we are here for. That is what you testified for—change of the law.

Secretary BALDRIGE. Yes. The law as it is set up now—we couldn't do what you are talking about.

Senator LONG. Mr. Secretary, that gets back to what I told you. Now, I made a speech over there to those Europeans that they didn't appreciate a bit because they felt it was protectionist. I said this thing was sold to the American people on two ideas. One, it was going to be reciprocal. Two, it was going to be fair. Let me tell you about your trade policy. If you are going to go out there and tell the American people—one, it is not going to be reciprocal, and two, it is not going to be fair, and we are going to continue to lose jobs and be kicked all over the lot by letting other people cheat on the rules while we abide by them—you can't sell it. You can't sell it that way—not to anybody who is losing his job.

We in Louisiana are in the process of losing 20,000 good jobs—the way I figure it—by a crowd that doesn't abide by the rules. Now, if they were abiding by the rules, we would be getting some jobs back. No, sir. It is strictly a one-way deal.

Why should the American people continue to support something where we abide by a bunch of rules, while the other people do not? Where they can just put us out of business left and right—willy-nilly—by not trading with us and not buying from us. They blackball us—you might say—as an exporter while they invade our market, and then engage in first one unfair practice and then the next, and they get away with it, and hold us to the rules that are supposed to be reciprocal.

And they are not abiding by it. They are not being fair, and they are not being reciprocal. How can you justify that? Losing our jobs and our markets on that kind of a basis?

Secretary BALDRIGE. I am not completely justifying everything you are talking about, Senator, but you know——

Senator LONG. You are telling me that right now they can do that within the law. What I am saying is why shouldn't we change the law?

Secretary BALDRIGE. Then, I think you would have to consider these factors. One, there are developing countries that, through GSP or some other means, we as a nation have determined, need assistance until they can become competitive. Second, I don't think it is as clear-cut as you are making it on whether some nations abide by the rules and others don't. We have gone, in general, by the law of comparative advantage, where if in our trading system we can make things more competitively than other people can, so be it, and we keep the trade channels open, and vice versa.

Now, if we were to take the steps that you recommend on natural gas in Mexico, you are aware, I know, that natural gas is still under some controls and has been in the past in the United States. And that has affected the textile industry because they use it in some of their raw materials. And we have had some serious complaints from the British and some of the Europeans on whether to take us to the GATT on that, too. We, in effect, are doing some of the same kinds of things.

We do regulate natural gas in this country. Now, you can say it is not as much, and so forth, but we do regulate it, and we have been threatened with some suits from abroad. They haven't happened yet—at least to my knowledge.

I wish it were just simple enough to say we ought to have a completely reciprocal program, but countries can't do business that way because your country—if you are Mexican—is going to have the advantage in some areas, and the United States is going to have the advantage in some other areas. You can't make it completely reciprocal. You have to have some kind of a world trading pattern to go by, but then if people don't live by it, we ought to get after them. And I share the views you have on the fact that we haven't gotten after some countries enough.

But in other cases, there are some real problems—in some of the developing countries.

Senator LONG. Now, Mr. Secretary, it just seems to me that the Government has every right to know, in general, what business is doing in this country. Now, when these American banks were lending hundreds of millions—and I should think billions—of dollars down there in Mexico to build a whole new industrial complex, if part of that picture was that that was to put a lot of American industries and a lot of American plants and a lot of American workers out of their jobs—if that is what we are doing—we are taking our taxpayers' money and putting it down there in loans that might never be paid off—and if the loans are not paid off, they are going to come ask the Government to make those loans good for them—our Government—when we are doing that type of thing, I should think that this Government ought to be looking at what the sum total effect is going to be.

And if part of that program is going to be to put Americans out of business on a program that is not reciprocal and not fair, if that is what the program is going to be, then we should have looked at that in the beginning. And perhaps we should have said to Mexico: Now, wait a minute, if you want to build some plants, let's us think in terms of where we very well could use more imports from Mexico. Look at these things that we are bringing in from Japan and these things you are bringing in from Taiwan and other areas where we have an enormous deficit in trading with those people.

But to be a party to a program where the sum total result is you are displacing American workers—honorable, decent people—without those people ever having a chance—and you are wiping out investments made in good faith in this country, while many of those people are being blind-sided, not realizing what is being done to them—to me it is not fair, and they are entitled to a better accounting from the Government than that.

Secretary BALDRIGE. Senator, I think the accounting would work somewhere along these lines. A couple of years ago—this isn't true now—when our exports to Mexico were at their height, we were running at an annual rate of $18 billion. Now, that is 450,000 American jobs created by exports to Mexico. At the same time, Mexico's total foreign investment—I mean, foreign ownership or foreign people putting plants down in Mexico—including the United States—but including everybody, was only 4 percent of their total plants. We had some well-publicized investments down there, but we came out ahead on the job picture in my opinion.

Now, we've had a tough 2 years since then. I will grant that. Their imports have dropped rather dramatically. They have almost been cut in half, but they can't import from us unless they can export. We are inexorably interwoven. We have got to keep the channels open because the more we can buy from them, the more they can buy from us.

And that is not bad for the United States.

Senator LONG. Mr. Secretary, I would submit to you that a wiser set of policies should be—one—to buy from them what we logically ought to be buying from them. We should be buying a lot of that natural gas. Why didn't we buy it? It was just because someone down there in the Department of Energy said that they have no choice. Eventually, they will have to sell to us, and they will have to sell at our price. Well, their reaction was that they did have a better choice. We had American banks offer them the chance to have another choice.

That is No. 1. We should have bought natural gas from them, on something that they were willing to agree to. That is No. 1.

No. 2. In terms of helping them to solve their problem, we should have been looking in the areas where we could absorb the imports. There are all kinds of things that they are producing down there—they are being made in Hong Kong and in Taiwan, and being made in Japan—with American investment and American cooperation, we could have put the plants in Mexico to provide them the opportunity to put their people to work. And I see you are nodding because you know we could do things like that.

[Secretary Baldrige nodding affirmatively.]

Senator LONG. And I would assume that if we created what you are talking about, that is part of what you are supposed to be doing.

Secretary BALDRIGE. Yes.

Senator LONG. In other words, if they expand their markets, you ought to be looking at where their markets are going to be, and we ought to be one of those markets. Why couldn't we be the market for a great deal of this stuff that is coming out of Japan and Taiwan?

Secretary BALDRIGE. We could.

Senator LONG. That is how I think it ought to be. Mr. Secretary, I am all for the idea of using foreign trade to tell American industry and to tell American labor that they have some inefficient practices. They have got some featherbedding. American business has got bad management practices, and bad labor practices that must be corrected.

I would even go to the extent of saying that you fellows will have to take a cut in pay and a cut in your fringe benefits if you want to retain your jobs; that otherwise, we are going to let these foreign products move in and put you out of business. Now, it is all right with me to do that type of thing where management and labor are out of line, but when they do what you tell them they ought to do—they get their costs down, they get more efficient, and labor becomes more productive—even take a cut in pay if need be, and they do all those things—if they have got to go out of business, anyway—I don't think that makes much sense. Now, I want to know what you think about that.

Secretary BALDRIGE. It really depends on the business and the company. I would like to be able to say that every U.S. company, where they have good management and work hard, should be guaranteed a place in the business sector forever, but you can't do that. There are competitive areas where we can't compete for a lot of reasons—one of them, raw materials perhaps—and some very labor-intensive areas where we can't do it.

If we start guaranteeing every one of our people a job for those kinds of reasons, the only way we could do it would be to put up protectionist barriers around the United States. And that would hurt us worse and lose us more jobs than before. Now, where we have seen industries injured who were superbly competitive, it has almost always been by some form of subsidy or dumping or unfair trade acts. We have tried to move as quickly as we can. I think the record of this administration has been good on that, Senator. We have had, I think, 177 countervailing duty and dumping cases in the last year. We processed them in all in 5 months, or thereabout, and we haven't missed one statutory deadline. So, we get after them when they are brought to us.

Senator LONG. Mr. Secretary, the problem we are talking about is similar to the question of whether the end justifies the means. Does the end justify the means? Now, we are talking about legislation. We are talking about changing laws. We are talking about changing policies. It gets down to be a question of whether the end justifies the means.

Some people say the end never justifies the means. That is wrong. It is all a matter of degree. It is a matter of degree when you look at the various factors that are involved in this thing—whether the end justifies the means. But compared to where we are now, when we are running a deficit of $100 billion a year, to use your own estimate, it is costing us 2½ million jobs a year. Now, at that rate, I submit that the American working people and the American producers in general including the farmer are just entitled to a lot better break than they are getting. Do you agree with that or not?

You are nodding. Let the record say the man is nodding.

[Secretary Baldrige is nodding.]

[Laughter.]

Secretary BALDRIGE. Senator, you know my high esteem for your abilities. You and I both know you can't make a simple yes or no answer to that question. That is why I was nodding and I can put it on the record that I am nodding.

Even something like the 2½ million jobs isn't that simple because in that figure there are offsets that would bring the number down some. But it is a terrible number of jobs. There is no question about that. It is a large number of jobs. We have got to do something about the trade deficit and there is no question about that.

I think that getting that down depends a great deal on our Federal deficit, as well as some other measures that we should be taking.

Senator DANFORTH. Senator Roth?

Senator ROTH. I just have one comment I would like to make. Senator Long, I must confess that I have a lot of sympathy for some of the things that you have said today and earlier. I remember back in 1974 that I supported you strongly, including in those negotiations on the authority and direction to modify GATT and also the agricultural policy in Europe.

Frankly, I think GATT needs to be reviewed as to whether its policies are relevant to today's situation, and I am for a liberal trade policy. But I think, we have questions. How do you compete with a Government-owned corporation? So, I think that we do need to look at our policy, and as a member of the committee that has the responsibility, I would like to join you and look at some of these problems.

With respect to the legislation we are looking at today—S. 121—what we are hoping to create is a strong advocate. You may not agree with all the details, but in effect, what we are trying to create is some instrumentality in Government that can speak in loud, clear tones for the American Government.

And I think one of the problems we have had in the past was that, while it was done for the best of reasons and we are the largest and the biggest, this Government has not created the kind of situation we want.

So, the only point I wanted to make to you, Senator Long, is the fact that to get the strong trade policies that I think this country needs requires many changes. One is in the policy area, as you are characterizing. The other is, I think, in trying to create the kind of advocate for trade policy that we can speak in the same aggressive, long, loud tones that the Japanese and the others do. Unfortunately, because of the division, we have spoken many times with a divided voice.

Senator LONG. May I just say, I am not asking you, Senator Roth, or the Secretary, to commit yourselves to my position with regard to the details of these issues at this point. But I am saying that I don't see much point in changing all these trade laws and reorganizing if you don't have anything in mind after we get through with all that. From my point of view, we have every right to complain about the way the situation is, and if we are not going to change it, I don't know why we are fooling around with all this.

Senator DANFORTH. Mr. Secretary, in answer to Senator Long's question, could you submit for the record—or maybe spell out now—what policy changes you think would flow from the creation of the new Department of Trade?

Secretary BALDRIGE. I will be glad to, Senator. But let me answer Senator Long and yourself first. We are talking about a simple—in concept—organizational change. We are talking about bringing the vital parts of Commerce that affect trade and the USTR together, department by department. There will be very little mingling so it won't take long to do. It is like putting a whole section under the new heading.

This is an organizational change, and when I say simple in concept, believe me, it is. I have been through a 100 reorganizations, and this is a piece of cake as far as getting it done. I am a novice in Washington, so I hadn't realized that any reorganization that Congress gets involved in would create as much interest as it clearly has. But I can't say—and I wouldn't say, because it wouldn't be true—that you can guarantee a particular policy thrust coming out of it.

What I can guarantee is that, to address the problems you are talking about, Senator—and I know both Senators are worried about it—let's say the $100 billion trade deficit—the new Department would be able to take that problem, recognize it as an overall problem, figure out what the best policy approach would be, and then try and get that through the administration—with I believe—much more success than the divided efforts we make now.

In short, the USTR as the Secretary of the new Department—a combination of the two with him as a Cabinet officer and with the backing of the much-strengthened organization—would be much more forceful an advocate and more able to win his position inside the administration councils, whether it was to get the budget deficit down or anything else.

There is no way in a reorganization change that you can say, first tell us a policy, and then we will tell you the organization.

Senator ROTH. It might depend on who is elected next November.

Secretary BALDRIGE. Pardon?

Senator ROTH. I said those policies might depend upon who is elected next November. What we are trying to create here is an advocate—a strengthened organization—for whatever those new policies may be. Isn't that correct?

Secretary BALDRIGE. Absolutely.

Senator DANFORTH. If the new administration, Mr. Secretary—let's say, Senator Mondale was elected—perish the thought——

[Laughter.]

Senator DANFORTH. And he has taken a position in his campaign that he is going to support domestic content and other protectionist measures, would a new Department of Trade be a more effective advocate for those new policies?

Secretary BALDRIGE. Yes; the Department of Trade would be, as I stated before, a stronger department. That is what we need. Now, if the people of this country elect a man who is a protectionist, this Department would be stronger for protectionism. If they elected a man who is a free trader, it would be stronger for free trade. But it wouldn't be a broker seeking the lowest common denominator through the rest of the Cabinet departments. It would be an advocate for whatever the President's essential position was.

Senator DANFORTH. And, Mr. Tracy, your view is that that is all well and good, but count us out. Right?

Mr. TRACY. As you know, we support this proposal in its present form.

Senator DANFORTH. Thank you. Gentlemen, thank you very much.

[Whereupon, at 11:55 a.m., the hearing was concluded.]

[By order of the chairman, the following statements were made a part of the hearing record:]

STATEMENT OF SENATOR DOLE, FEBRUARY 21 HEARING ON TRADE REORGANIZATION PLANS

The underlying premise of the trade reorganization proposals we are examining today is that a different trade policy organization within the executive branch will improve our performance as a trading nation. This committee attaches importance to the structure of our trade policy machinery and has devoted considerable effort over the last 25 years to refining this structure. But no trade reorganization will do much about such fundamentals as our massive Federal budget deficit which play such a key role in the size of our growing trade deficit.

For over 20 years, my Finance Committee colleagues, both Republican and Democrat, have supported the central role of a small White House office to carry out the work of the President's Trade Representative. In examining the proposals before us today, we should explore whether the present system is working as intended by Congress, and whether that intent could be served by measures which fall short of an expensive and disruptive reorganization.

I note that several agricultural interests have opposed S 121. These hearings are an appropriate occasion for exploriing the effect of proposed trade reorganization on the interests of our agricultural community.

USTR's role as "honest broker" of U.S. trade policy is based on the premise that no single Cabinet level agency can adequately represent all of the competing interests which bear upon U.S. trade policy. USTR was given responsibility for the daily conduct of negotiations as well as the development of long term policies and strategies in an effort to insure coherence, balance, and consistency in U.S. trade policy. Before abandoning the current structure, this committee will want to know if and why this framework has proven unworkable.

STATEMENT
on
TRADE REORGANIZATION
for submission to the
SENATE FINANCE COMMITTEE
for the
CHAMBER OF COMMERCE OF THE UNITED STATES
by
Dr. Ava S. Feiner*
February 28, 1984

The U.S. Chamber is convinced that the importance of trade to the vitality of the United States' economy must be recognized in our national policies, and reflected in a supportive government structure for trade policymaking and implementation. Our efforts to maximize the gains from trade deserve to be treated as a national priority. Creating a Department of International Trade and Industry (DITI) to take the lead in making them a priority, through the reorganization plan that has been outlined by the Administration, is a crucial first step.

Recognizing this need, the Board of Directors of the Chamber endorsed in principle the President's trade reorganization plan, on condition that the final plan can be seen to advance certain objectives that we consider central to reorganization. These objectives will be identified later. The Chamber also supports in principle and subject to the same reservations S. 121, introduced by Senator Roth. We also congratulate him for his sustained efforts to formulate a trade organization plan that can meet the country's trade need today.

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*Manager, International Policy Department, U.S. Chamber of Commerce

The organization of government trade activities should reflect current trade realities, and respond to the trade challenges that now face us. The plain reality is that commerce is thoroughly international, national economies are deeply interdependent, and policies that we traditionally have considered to be purely "domestic" now significantly affect the conditions of competition in world markets.

A country's trade performance is in large part determined by its tax, fiscal, monetary, antitrust, education, transportation and regulatory policies, to name a few. Accordingly, its trade policy cannot be made in isolation from these "domestic" policies. By the same token, trade performance considerations should be weighed heavily in the process of reviewing policy options in these domestic areas.

Trade policy is too important to our nation's welfare to be treated as a stepchild among competing national objectives, as merely the residual of decisions made in furtherance of other disparate goals. Trade considerations deserve a strong, highly visible advocate in the government policymaking process, an advocate capable of mobilizing the resources needed to set forth our basic trade interests, establish and articulate our trade policy objectives, identify what is needed in other policy areas to help advance those objectives, and negotiate firmly with competing advocates within our government, and with competing economic powers abroad, to obtain what is needed. The urgent need for a leader and an agency, charged with these functions, argues in favor of creating a U.S. Trade Secretary, and assuring that he or she is backed by the resources, prestige and power of a full cabinet Trade Department.

Furthermore, the need for a trade advocate today will be amplified in the near future. World markets are changing rapidly, and the interaction of our evolving economy with them is increasing. National economies the world over are changing, growing and intersecting, and the process is reshaping trade and investment patterns, creating new forms of commercial activities, and, unfortunately, inviting new government efforts to manage markets. Consequently, just as the trade issues that vex us today are not the same as those we struggled with in the past, the confounding trade issues of the future will be different from the ones with which we are now familiar.

The problems of lowering high tariffs and eliminating quotas are straightforward compared to the newer problems of getting sovereign countries to agree to common rules to guide their domestic regulation of business in order to eradicate any practices that have the effect of discriminating against foreign business. Yet, even the emerging trade problems we see today are likely to pale in comparison to the problems that will develop as new types of business break through the bounds of national borders, and governments deploy new methods in their efforts to reassert sovereignty over these businesses and monopolize the benefits of the earnings, jobs and technology they generate. The goal of assuring open international markets is bound to become even more elusive as we try to apply it to complex, emerging transborder industries, such as information transmission and processing, space technology, biotechnology, health services and a range of other transborder services activities.

The intellectual, legal and political challenges awaiting us are intimidating. But they will be overwhelming unless we prepare to meet them. And putting in place the right trade apparatus clearly is a precondition to doing the right preparatory work.

Organization, of course, is not a substitute for policy, nor is it a substitute for hard work and the determination to implement policy. However, good policy thrives on good organization and, conversely, is hindered by poor organization. The quality of an organization influences, among other things, the efficiency of the decision-making within it, the morale of personnel who run it, the completeness of the information and the quality of analysis generated by it, the thoroughness with which its personnel identify options and weigh competing considerations, the depth of the insight they achieve into the full consequences of a decision, and the speed and effectiveness with which they are able to implement policy. Since a more complex economy has made the management of trade policy tougher, and since the adverse consequences of poor management potentially are greater, we should make every effort to assure that the organization of the U.S. government for trade policy is as rational, coherent and effective as it can be.

While we can learn what is best only through deliberation and experience, we know that the existing structure is confusing, duplicative and inadequate to our country's current needs. There are always costs and potential risks associated with change. The reorganization of trade functions is no exception. Change can be disruptive, delay important work, upset relationships, and create new problems. But the failure to correct serious flaws in our trade apparatus now will increase chances for more serious failures in the future. Despite the near-term hurdles, a reorganization that will better support the development and implementation of sound trade policies in the future is essential.

In recognition of the growing importance of international trade to the U. S. economy and the new challenges that the changing world economy pose for

U. S. trade problems, the Chamber supports in principle the President's proposal to create a Department of International Trade and Industry and reorganize the government's trade policy structure in other ways. However, our support for the final reorganization legislation depends on its meeting certain objectives that we consider central to reorganization. These objectives are:

1. Consolidation of trade policy and implementation functions in the Trade Department and under the leadership of the Trade Secretary. Policy and implementation are linked inherently and should be joined in organization. Failure to do so invites contradiction, duplication, confusion and ineffectiveness.

2. High visibility in national policy for the Trade Secretary and Department. Trade has become a central factor in determining our economic welfare and merits the sustained attention of policymakers, businesspeople, consumers, community leaders, and the public at large.

3. Ready access to the President. The views of the person who leads trade policy must be assured a timely and full hearing.

4. A strong relationship between the Trade Department and Congress, reflecting the special constitutional role of Congress in international commerce. Congress created the Trade Representative's Office in part to delegate to it some of Congress'

trade powers. Consultation with Congress must be a central element of the Trade Department's activities.

5. Incentives to support a strong professional corps of career trade specialists, particularly to carry out trade negotiations and export promotion. Effective trade negotiation and promotion require experience and a memory of past negotiations. U.S. negotiators are often at a disadvantage in dealings with their long-tenured counterparts. Incentives to retain the best and the brightest trade professionals are a worthwhile investment.

6. A mechanism in the White House to assure that there is a thorough balancing of interests, perspectives and national objectives in the formulation of trade policy and international economic policy generally. Our trade policy best serves our broad national interests when it is integrated with, and mutually reinforces, other domestic and foreign policies. Although the Trade Secretary, even as a trade advocate, should seek balance and coherence in developing trade policy, the President must have independent resources to help him weigh competing considerations and ultimately serve the broad national interest. A White House staff of international economic experts is needed to serve this function.

7. A system of inter-agency coordination, such as the Cabinet Council system, that assigns trade policy leadership to the Trade Secretary and assures that trade factors are considered fully in the

formulation of policy outside the trade jurisdiction, for example, in the formulation of U.S. monetary policy. The effect of current practice is to have at least three inter-agency coordinating groups able to assert jurisdiction over trade-related matters. While policy areas inevitably overlap, and will continue to overlap in the future, there should be only one inter-agency group, chaired by the Trade Secretary in the President's absence, with the uncontested lead on any matter that most significantly affects U.S. trade activities.

8. A statutory basis for the Department of International Trade and Industry that is premised on a strong mandate to work for the expansion of a world trade system based on free competition and open markets. The best policy to create growth and jobs here and everywhere is one aimed at expanding and liberalizing trade. The United States, with its large economy and extensive overseas investments, always has had a vital stake in opening world markets and in resisting pressures at home and abroad to close them. The new Department, for several reasons, including the marriage of policy and implementation within it, could have a greater potential for carrying out a protectionist trade policy, or an interventionist industrial policy. While Cabinet performance largely will depend on a President's policy, it is important to state at the creation of this new Department that neither protection nor increased government intervention in markets is the basis for or impetus behind its creation. Rather, it should be

made clear that the Department is being established to help advance our historic objective of opening and expanding markets, a process that has helped build our country's economic strength and has fostered worldwide economic development.

9. No change in the traditional Congressional committee jurisdictions respecting international trade policy matters. The existing allocation of responsibilities works well and the reorganization plan presents no reason to change committee traditional jurisdiction over trade legislation and policy oversight.

10. No institutionalization of an industrial policy based on government direction to firms and industries. The establishment of a DITI is desirable on its own merits and should not be used as a vehicle to entrench a policy for government direction to industries. Proposals for a deliberate national industrial policy raise a range of economic and political issues, many of which are not directly related to trade. Debate on this issue should be separate from that on the creation of a Trade Department debate and not impede timely action on the Trade Department proposal.

A significant departure from these objectives would erode the basis of Chamber support for the reorganization proposal. We plan to monitor closely developments in the Administration and Congress that affect the reorganization legislation, and to review the plan, as it evolves, to assure that it advances the objectives we consider to be fundamental. We welcome continuing discussions of this subject with the Administration and Congress, and are eager to work with both branches to improve proposals to reorganize and create a Department of International Trade and Industry.

Statement of
North American Export Grain Association, Inc.
to the
International Trade Subcommittee
of the
Senate Finance Committee
on Bill S.121
(Legislation to Create a new Department of Trade)
February 27, 1984

The North American Export Grain Association is an organization comprised of 34 of the leading exporters of U.S. grain from the United States. Our members are both private stock companies and grain cooperatives, and together they account for probably as much as 90% of the total amount of grains exported from the United States. They are obviously interested in any issue which affects the U.S. export performance and are, therefore, also quite obviously interested in the discussions of the pending legislation, Bill S.121, designed to create a single Department of Trade and Industry in the United States.

We have some serious reservations about the Bill and the approach it suggests, although we feel that a close look at the U.S. trade picture is overdue. Our Association, therefore, welcomes the discussion of the trade policy issues in the United States. We feel that during the past few years much has been said of the need to export but relatively little has been done. In the meantime, the U.S. purpose in exporting appears to be lost in between the discussions and in the actual export performance itself.

The first question which should be asked in any discussion of the export function is "Why does the United States export?" This, we feel, is the crucial question, and one which is not raised often enough and, even less frequently is an effort made to answer. If it is for economic reasons, we feel that it should not be discussed or considered in the political arena. In extreme circumstances where one is tempted to consider it politically expedient to restrain trade, the question should be raised not only as to the cost to the United States but also as to whether or not the other nations in the world will concur and participate in the U.S. action. If they will not, then the United States should likewise refrain from considering it politically.

If the United States should decide that exports should serve an economic and not a political cause in the United States then the exports should be freed of government supervision and left to the private industry to manage. Much has been made of the fact that every other country in the world, even the less developed countries, have separate foreign trade ministries. The fact that is ignored in such discussions, however, is that such ministries actually foment or promote foreign trade; they do not restrict it. The trade restrictions of the past decade have done a great deal to harm the United States economically and politically; they have not been beneficial to U.S. foreign policy. The United States' reputation as a trader has suffered and is at the present time probably weaker than it has ever been, considering the disastrous effects on the U.S. economy of the 1980 grain embargo imposed by the Administration at that time and the restrictive trade posture adopted by the administration since that time. This is contrary to the position taken by all the other United States trading partners and competitors. Their trade offices do not restrict trade but, recognizing their nations' need to export, work with the private sectors to encourage as much trade as possible.

We feel that the sponsors of this bill are on the right track, but we fear they are concentrating merely on the construction of an organization in the United States and not on the issue itself. The fact that the Commerce Department and the U.S. Special Trade Representative are to be merged into what will be a trade office appears at first blush to be a good idea, but we feel a merger under the circumstances outlined would not only not be helpful, it could cause further damage to U.S. efforts. For it would mean a merger of a relatively small (about 170 people) organization such as the STR with a huge organization (about 7,000-8,000) people. The influence of the STR in such a merger would, obviously be virtually nil, for it would be the Commerce Department which would supply the preponderance of the personnel and, therefore, their influence in the new trade office. For as one member of the STR has indicated, when does a minnow swallow a whale? This would mean that the Commerce Department, which has not really concentrated on export business, would be dominating the Office of the STR, whose sole business is exports and which already responds directly to the President.

The fact that the new Department of Trade and Industries would have Cabinet status would be less impressive than what the U.S. trade policy would be. Much is said about the fact that a Cabinet level agency would have the President's ear, but would it, for example, have more the President's ear than does the Secretary of State, the Secretary of Defense or, for that matter, any other Secretary within the President's Cabinet? Would it, for example, have even more influence over the President than the President's close personal friends, the President's wife and/or a child of the President, who in some instances have apparently been chief advisors to a president? What influence would it wield over a President as in 1980 when the President wanted to embargo exports and did so contrary to all advice he received, or when he adopts a posture which was against trade, such as the posture of the current administration for at least its first two years? Having a new Department of Trade would not have changed this situation, would not have prevented the embargo, for the President had the benefits of a great deal of advice to the contrary. It was essentially his decision, based chiefly on the advice of his National Security office, which advised him in the trade area, an area for which it bears no responsibility. We feel, therefore, that it is much more important to consider U.S. export policy. A look at the current steep negative U.S. balance of trade and payments should indicate the current strong need to do so.

If one is to consider solely the total effects on the U.S. economy of U.S.

export trade it would be enough to merit more attention. If one considers, however, also the negative effects on U.S. industry of a lack of export business it should be absolutely convincing. The effects of the slowdown in U.S. grain exports has, for example, contributed greatly to the sharp increase in the U.S. payments to agriculture. For if the United States had during the past three years exported to the Soviet Union, against whom the United States imposed an export embargo, followed by export restraints, the quantities which the U.S. had exported to that country before 1980, the entire PIK program would not have been necessary, and with it the huge outlays for agricultural support payments. Industries manufacturing either embargoed materials or those prejudiced by the extent of the PIK program might not have been so severely prejudiced. This has led to the sharp decline in the U.S. employment rate, which decreases U.S. income tax while increasing U.S. expenses.

Business is, therefore quite important to the United States, and we are pleased it is receiving the attention of this committee. We hope Congress will consider all aspects of the trade problems, however, and not merely who will occupy which position within the Administration. The shifting of offices appears more like a musical game of chairs within an administration, a shifting of boxes on someone's organization chart. It does not appear to be addressing the most serious trade problems within the United States. The trade problems of the past decade have been brought on not by the fact that there was not a single trade office within the United States but that there were too many other individuals who spoke out on trade issues. And every one of those voices is still within the Administration, not perhaps the same individuals but certainly from the same positions.

In all the considerations of the establishment of a merged trade office agriculture has received special attention, first, because agriculture is on record as being strongly opposed to the merger of the STR and the Department of

Commerce. In the second place, it is considered separately because of the importance of agricultural exports to the entire U.S. economy. Yet, it is this importance which makes such a separate consideration impossible. For in considering industrial exports to other countries they will want to discuss agricultural exports and/or imports. Any U.S. agency which discusses exports must, perforce, be in a position at least to discuss agricultural exports. This would make it impossible for the Foreign Agriculture Service of the USDA to maintain even the semblance of being in charge of agricultural exports. Actually, considering how little the USDA has had to say about agricultural exports, one would have first to give them control of agricultural exports and then speak of their retaining this authority. The USDA has spoken up for the loosening up of U.S. restraints on agricultural exports for the past several years. And it has run into opposition from many agencies, none of which was reported to be the STR or the Department of Commerce. Would this situation change with the creation of a merged Government agency? All indications would be that it would not. We would again be faced with the same personalities or different personalities speaking from the same positions.

The problems in the United States appear, therefore, not necessarily to be with who is heading which agency, but which of those around the President is speaking to him more persistently and with greater influence on trade issues. The United States trade policies during the past decade have been at the very least very inconsistent, which has been very prejudicial to U.S. trade. The problems have had nothing to do with the organization, and there is, unfortunately, nothing in the current proposal which would purport to change the U.S. policies or actually examine them. We feel, therefore, that this committee would perform a much greater function for the United States if it were to consider U.S. trade policies and attempt to establish the type of independent thinking in the United States which would promote foreign trade. The type of thinking necessary for this should come from industry. It should be non-partisan, and those who participate should be those with a responsibility for exports.

Ideally we feel the United States should vest the responsibility for agricultural negotiations with the USDA. It is the organization which has the responsibility for agricultural issues, both to the farmers and to the nation. It understands the agricultural issues better than does any other agency, and they are exceptionally complex issues, ranging from production to disappearance of the product.

Failing in this, we feel that agricultural issues have best been represented by the Office of the STR. We fear that if the STR is swallowed by the Commerce Department, as would obviously be the case, agriculture would lose and, considering its great importance to the nation, so would the people of the United States also be the losers.

January 18, 1984

Charles W. Griffin
319 Inspiration Way
Del Rio, TX 78840

Honorable Senator John C. Danforth
Chairman-Subcommittee on International Trade
Committee on Finance-U.S. Senate
Washington, D.C. 20515

Dear Sir:

This letter is to protest the Administration's proposed consolidation of U. S. Customs and the U. S. Immigration and Naturalization Service. In early January, 1984, the President's Cabinet Council on Management and Administration approved a plan to transfer all Customs inspectors (approximately 638) working primary inspection at land ports to INS. At air and seaports, approximately 442 INS inspectors working primary would be moved into Customs. In addition, approximately 165 Customs Patrol officers patrolling the land borders would be transferred to INS. The attachment shows how the 638 transfers are proposed nationwide.

Target date for implementation is March, 1984, at the earliest, but the Administration first hopes to win approval of the plan in Congress. The Administration will either 1) formally submit legislation or 2) will attempt to informally accomplish the consolidation through Executive [illegible]er with the informal approval of congressional committees which have jur[illegible]ction over these two agencies. A moratorium of 60 days was declared for the plan when Congress adjourned November 18. That will expire about February 16, 1984. If congressional action to delay or stop altogether this plan is not taken by February 16, we may all have to live with this plan and its disastrous consequences.

I speak from first hand experience. I am a Supervisory Customs Inspector in Del Rio, Texas. This is my 14th year with Customs, 9½ as an inspector and 4½ as a supervisory inspector. I can tell you that our ability to do our job--intercept narcotics, protect the revenue, etc.--would be so severely hurt by this plan that Customs would no longer be able to achieve its goals and mission in the land border ports.

Our ability to handle the workload would be devastated by this 44% cut in inspectional personnel. At Del Rio, we presently have 18 inspectors of which 3 are Supervisory Inspectors.Customs has alloted 20 positions to be necessary for Del Rio making us short 2 inspectors already. A cut of 8 would bring us down to an inspectional staff of 10. Three of the 10 would be supervisors, with all the attendant supervisory, administrative and managerial duties. At the present time a supervisory inspector works direct line supervision about 65% of the time. The remaining 35% of his time is for administrative/personnel supervisory work in the office, which must be done to keep the agency's port operations working smoothly. This plan would have the following results in our staffing structure:

4 days of the week the port would have to operate with 2 inspectors off each day. The other two days of the week would have one inspector off each of those days, probably Saturday and Monday, the two busiest days. The staffing pattern would have to be as follows for the 24 hour port of entry and supplemental staffing at the 16 hour/day Amistad Dam and airport: (Supervisors are included on both patterns).

Port of Entry	Insp. Current Staffing	Insp. Proposed Staffing
Midnight to 8AM	2	1
8AM to 4PM	4 or 5 usual (Includes cargo inspector and Day Supervisor)	1½ (Includes cargo inspector and Day Supervisor)
4PM to 12AM	3 or 4	1½
Dam		
8AM to 4PM	1	1
4PM to 12AM	1	1
Annual Leave	2(3 max if Supervisor on leave)	1 maximum
Days Off	2 to 3, depending on the day	2 (1 two days of the week)

This, of course, does not make any allowances for emergency annual or sick leave, in which case replacements have to be found or overtime worked.

In addition to all this, Customs would have to send an inspector to the airport to process aircraft whenever the need arose. This would be a permanent Customs responsibility with the proposed plan. Presently Customs and INS alternate this duty every other month. The Del Rio International Airport is located about 10 minutes one way from the Port. One routine aircraft arrival requires anywhere from 45 minutes to an hour of the inspector's time, depending on whether or not Immigration permits have to be issued. It often happens that an airport inspector is gone at the airport 40-50% of an 8 hour day. So for all practical purposes this gives the port ½ man for baggage, since he could be, and often is, at the airport ½ of the time. The Airport Development Act of 1976 does not allow Customs to charge overtime for airport business between the hours of 8AM-5PM daily (excluding Sundays and holidays). Thus the aircraft arriving then has to be serviced by bridge personnel. In addition to this, between the hours of 5PM and 8 AM (excluding Sundays and holidays, Customs has told its management and supervisors, also, if at all possible, to service those aircraft from the bridge, even though the Act allows for these arrivals to be on overtime. This is no doubt the result of pressure exerted by the same intense aircraft pilots' lobby that produced the Airport Development Act of 1971.

A brief review of the proposed staffing plan reveals that it does not give Customs enough inspectors to handle even its daily routine commitments of office supervisor, baggage, airport, and cargo, not to mention what would happen if they by chance were to get an arrest or seizure which can, and does quite often require at least 2 inspectors for times ranging from ½ hour to 3 or 4 hours, depending on the complexity of the seizure.

The proposed consolidation plan is proposing a situation which is utterly impossible for U. S. Customs to operate in Del Rio, I'm sure that this is mirrored nationwide at most, if not all, of the land border ports. In Del Rio, we don't need or want the consolidation with its accompanying cutbacks in personnel. The present strength there is only adequate at best to accomplish the mission, and it is still 2 short of authorized ceiling strength.

The U. S. Customs Service and its tradition of law enforcement and revenue protection and collection is one of our country's most important and respected agencies. This consolidation plan borders on insanity, does not address the real needs of Customs manpower at port level. and will make U. S. Customs the laughing stock of federal law enforcement, instead of the proud, respected agency that it is and ought to continue to be. An open sieve will be created at many land border ports for the smuggler to operate freely, with no fear of interception by Customs because of its thin spread of manpower.

An accompanying consideration, and probably the most vital one which must be addressed is the cost/effect/benefit ratio of the plan. It will cost millions of dollars in training and equipment expense to completely retrain all of the 1245 forced transferees to do the job of the agency they don't want to work for. Needless to say, the morale of the personnel, both involved and uninvolved in the concerned agencies, will be undoubtedly at its lowest level ever. The advent of the one year temporary appointment GS 5 Immigration inspector to do primary work at the land borders has already hurt morale tremendously. Last and surely the most intriguing question of all is: What is the real gain, advantage, benefit, etc. to government agencies or the public of this insane plan? No one can come up with a believable or rational answer, because there is none. The consolidation is a power grab by the Justice Department and Immigration Service. It is a crass attempt at empire building at the expense of the Customs Service and the vast majority of the law-abiding American public. It accomplishes nothing but chaos; its implementation will mean the effective emasculation of a proud law enforcement oriented and revenue collecting agency: the U. S. Customs Service. Customs is the only agency I know of that pays its way besides the Internal Revenue Service. The last statistics made available a year or two ago established the Customs revenue to the government to be 18 times its cost. This plan attacks everything that is proud and productive about Customs. Don't let it happen.

Please act in your legislative capacity to abort this plan before it becomes a disastrous reality. [illegible] proud, self-sufficient agency's tradition of law enforcement is at [illegible]. Please don't disappoint them and the American people.

Sincerely,

Charles W. Griffin

Charles W. Griffin
Supervisory Customs Inspector
Del Rio, TX

SOUTHWEST REGION - LAND PRIMARY

District/Port	Permanent Full-time Transfer Positions
Laredo/Roma	4
Rio Grande City	3
Progresso	4
Brownsville	18
Eagle Pass	8
Del Rio	8
Laredo	21
Hidalgo	17
TOTAL	83
El Paso/El Paso	47
Columbus	3
Fabens	4
Presido	4
TOTAL	58
Nogales/Nogales	13
San Luis	7
Sasabe	2
Naco	4
Douglas	2
Lukeville	4
TOTAL	32
REGION TOTALS	173

PACIFIC REGION - LAND PRIMARY

District/Port	Permanent Full-time Transfer Positions
San Diego/San Ysidro	58
Tecate	3
Calexico	27
Andrade	3
TOTAL	91
Anchorage/Alcan	3
Dalton Cache	2
Skagway	0
TOTAL	5
Seattle/Blaine	9
Lynden	2
Sumas	2
Pt. Roberts	0
Met. Falls	1
Groville	4
Anacortes	1
Port Angeles	1
Frontier	0
Laurier	1
Danville	0
Ferry	1
Nighthawk	1
TOTAL	23

NORTHEAST REGION - LAND PRIMARY

District/Port	Permanent Full-time Transfer Positions
Ogdensburg/Champlain	28
Messena	4
Ogdensburg	3
Alexandria Bay	8
Trout River	10
TOTAL	53
St. Albans/Highgate Springs	17
Derby Line	14
Norton	7
Richford	7
Burlington	1
TOTAL	46
Portland/Calais	12
Jackman	6
Madawaska	15
Houlton	8
Portland	6
TOTAL	47
Buffalo/Buffalo-Niagara Falls	46
TOTAL	46
REGION TOTALS	192

NORTH CENTRAL REGION - LAND PRIMARY

District/Port	Permanent Full-time Transfer Positions
Great Falls/Eastport	3
Peigan	0
Chief Mtn	0
Porthill	1
Raymond	3
Roosville	2
Trail Creek	0
Sweetgrass	5
Whitlash	1
Wild Horse	1
Turner	1
Del Bonita	1
Scobey	1
Morgan	1
Whitetail	1
Odheim	1
TOTAL	22
Duluth/Int'l Falls	7
Grand Portage	3
Duluth	0
TOTAL	10
Pembina/Fortuna	0
Ambrose	0
Noonan	0
Portal	2
Northgate	0
Sherwood	0
Antler	0
West Hope	0
Carbury	0
Denseith	1
St. John	0
Hansboro	0
Sarles	0
Hannah	0
Maida	0
Walhalla	0
Neche	0
Pembina	3
Noyes	2
Lancaster	0
Pinecreek	0
Rosseau	1
Warroad	1
Baudette	0

NORTH CENTRAL REGION - LAND PRIMARY
(cont.)

District/Port	Permanent Full-time Transfer Positions
Detroit/Grand Rapids	0
Sault Ste. Marie	5
Port Huron	7
Detroit	34
TOTAL	46
REGION TOTALS	88
NATIONAL GRAND TOTALS	572*

Travel and Tourism
Government Affairs
Council

1899 L Street, N.W.
Washington, D.C. 20036
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Honorable John C. Danforth
Chairman, Subcommittee on
International Trade
Committee on Finance
U.S. Senate
Washington, D.C. 20510

Dear Chairman Danforth:

We appreciate this opportunity to set forth, for the record, the views of the Travel and Tourism Government Affairs Council with respect to S. 121, legislation to create a new Department of International Trade and Industry.

The Council is the national organization representing the unified travel industry viewpoint on legislative and regulatory issues of common concern. Council membership is comprised of 29 of the largest travel and tourism national trade organizations reflecting the diverse nature of the industry which includes transportation, tour sales, travel agencies, and financial services.

Last summer, the full membership of the Council met and unanimously endorsed the proposal to create a new Department of International Trade and Industry. The basis for our enthusiasm is the proposed transfer of the United States Travel and Tourism Administration (USTTA) to the new department and the forefront of international trade policy.

In our view, this is not only appropriate but logically mandated by the overwhelmingly large portion of U.S. trade which is travel and tourism.

We are 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.

Domestically, travel is the nation's second largest service industry, having generated (in 1982) $194 billion in expenditures and over $20 billion in federal, state and local tax revenue. As the second largest private employer in the nation, the industry directly employs 4.5 million Americans at every skill-level and provides another 2.2 million supporting jobs. Travel and tourism was responsible for 27% of all new jobs created in the U.S. over a three-year period (See Appendix 1).

Clearly, tourism is a major and growing economic giant, not only domestically but internationally. Yet the United States Travel and Tourism Administration, 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 was created in 1981 by the passage of the National Tourism Policy Act. It is mandated by the Act to "optimize the contribution of the tourism and recreation industries to economic prosperity, full employment and the international balance of payments to the United States."

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 the Travel Industry Association of America to assemble a panel of top-level marketing executives to develop a recommended marketing plan for USTTA. The International Marketing Plan Development Committee (roster of members attached as Appendix 2) met on August 11, 1983, and began drafting initial strategies which will ultimately be expanded into a comprehensive plan and submitted to Congress, the Administration and USTTA this spring.

We believe these efforts represent a promising beginning, if not a remedy for all that has plagued the implementation of an effective and viable tourism policy.

Until now we have been discouraged by government policy which takes our apparent strength in international markets for granted. The result of this complacency is not heartening. Our share of world tourism receipts declined from 13% in 1976 to 10.6% in 1982. To lend perspective to these figures: each 1% of world market share (in 1981) represented $1 billion in export receipts, $95 million in federal tax revenues and approximately 30,000 jobs (See Appendix 3).

Further, federal government reactive mechanisms have not kept pace with the increasing threat posed by expanding foreign penetration of our markets and ever-intensifying competition for the international tourism dollar.

These new competitive efforts are well-documented. In 1981, the U.S. ranked 27th in total spending by national government tourism organizations (See Appendix 4). On a per capita basis, the U.S. ranks 64th in spending by national government tourism organizations--just below Botswana (See Appendix 5).

It is unfortunate, but no great surprise that, paraphrasing the biblical admonition, we have managed to reap only that which was sown. U.S. international tourism receipts measured in terms of constant dollars, grew by only 4.9% in 1981 down from a high of 14.7% in 1976 (See Appendix 6). While the average of international tourism receipts per capita is $185.10 ($201.85 among developed countries) the U.S. receives only $43.90 per capita in international tourism receipts.

This is not good news. And when further coupled with a piece-meal approach to trade policy in which, until recently, tourism played only a negligible part, the depth of our concern becomes readily apparent. It is imperative that the vast resources of the United States government be harnessed to provide a coordinated approach to international trade policy. For example, while some fine work has been undertaken to identify foreign barriers to tourism, it may take long-term strategies, in particular multi-lateral and bilateral negotiation, to eliminate them. It is also critically important that such strategies remain consistent with our long-term commitment to fostering and maintaining an "open-borders" policy both domestically and internationally.

The record-breaking trade deficit which was announced by the Commerce Department last week, underscores both the timeliness of your Committee's scrutiny, and the urgency of the problem at hand. The $9.7 billion January trade deficit, is only the tip of an iceberg which is estimated to top $100 billion by the end of the year.

Although the verdict is not yet in on the performance of the services account (of which tourism is the largest part) vis-a-vis merchandise for January, services have not only traditionally compensated for merchandise trade deficits, but have consistently produced a surplus of U.S. service exports over imports. In the last 3 quarters of 1983, for example (the latest period for which statistics are available), the services account surplus totalled over $6 billion. While our responsibility, as a nation, to improving the merchandise trade performance cannot and should not be abrogated, it would seem equally clear that federal lack of attention to services, and particularly tourism, cannot and should not be rationalized.

We believe that the trade department proposal 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. It is our conviction that such a measure 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.

Finally, we would like to express our gratitude to you and your colleagues on the Committee for your initiative and leadership in addressing this issue, and we respectfully urge that S. 121 be acted upon favorably and placed on the Senate calendar for a vote.

Sincerely,

James E Gaffigan

James E. Gaffigan

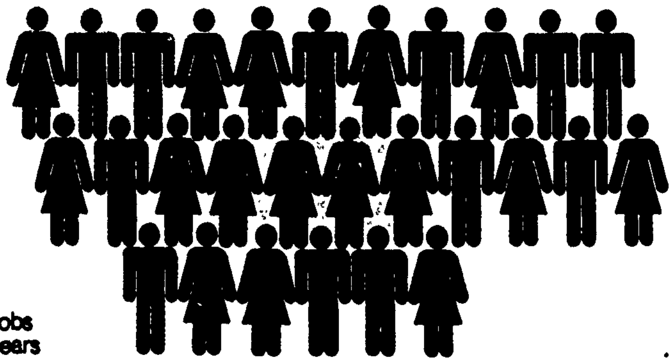
Appendix 1

Travel and Tourism
Government Affairs Council
An Affiliate of the
Travel Industry Association
of America

New Jobs Generated
by Travel and Tourism

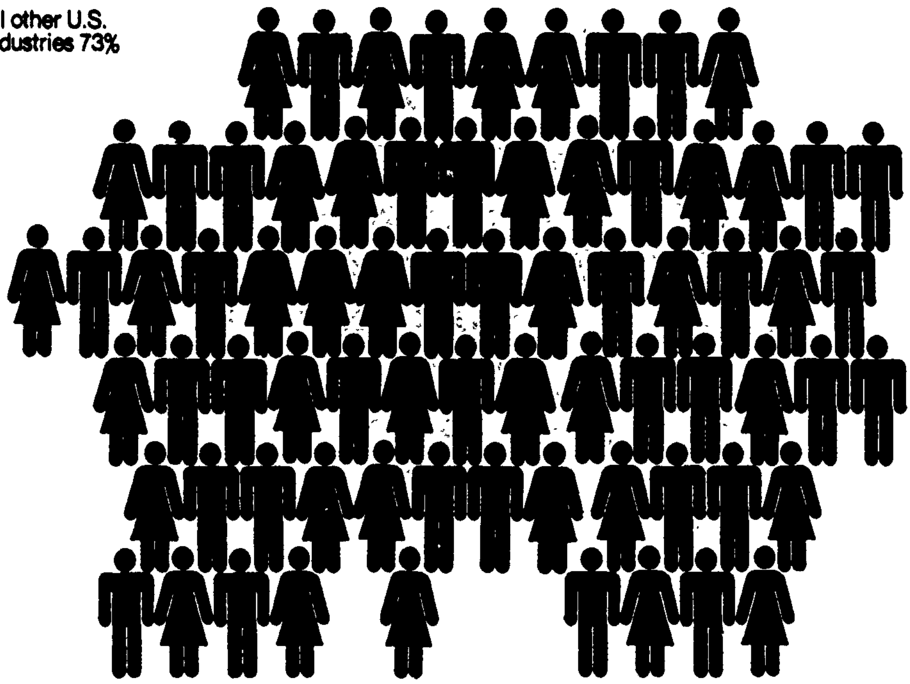
New Jobs Created
In the U.S. In the Past 3 Years
(1979, 1980 & 1981)

Travel and Tourism created 179,000 new jobs in 1981 while unemployment generally was rapidly increasing.



Travel & Tourism Industry
Created 27% of all New Jobs
in the U.S. in the Past 3 years

All other U.S.
Industries 73%



Source: U.S. Travel Data Center and
Travel and Tourism Government Affairs Council

Appendix 2

International Marketing Plan Development Committee

Chairman

James C. Collins
Senior Vice President, Marketing
Hilton Hotels Corporation

Members

J. Kay Aldous
Vice President, Public and Government Policy
American Automobile Association

Roger Ballou
Senior Vice President, Vacation & Leisure Travel
American Express Company

William Blaziek
Senior Vice President Sales and Marketing
Resorts International Casino Hotel

Chris Browne
Senior Vice President, Marketing
Holiday Inns, Inc.

Gordon L. Downing
Vice President General Sales Manager
National Car Rental System, Inc.

Sig S. Front
Senior Vice President
Director of Marketing
The Sheraton Corporation

Robert Giersdorf
President
Exploration Holidays and Cruises

Edward N. Gilbert
Director
Florida Division of Tourism

Charles Gillett
President
New York Convention & Visitors Bureau

Elliot Hert
International Marketing Director
Tauck Tours, Inc.

James W. Hurst
Executive Vice President
Greater Los Angeles Visitors & Convention Bureau

Samuel B. Jamieson, Jr.
Vice President Marketing
Short Line Tours

Michael L. Jenkins
Director, Business Marketing
American Telephone & Telegraph Co.

Thomas J. Koors
Executive Vice President Sales and Marketing
Northwest Airlines, Inc.

Jack B. Lindquist
Executive Vice President, Marketing
Walt Disney Productions

William S. Norman
Group Vice President, Marketing and Corporate Planning
Amtrak

Malcolm D. Pynn
President
Holiday Americas

Don Ryan
President, Camping Group
Kampgrounds of America, Inc.

Martin R. Shugrue, Jr.
Senior Vice President Marketing
Pan American World Airways, Inc.

William D. Slattery
Vice President Sales & Service International
Trans World Airlines, Inc.

Robert Smalley, Sr
President and Chief Executive Officer
American Land Cruisers

Bradley Smith
Executive Director
Foremost West, Four Corners Regional Tourism Organization

Brian Smith
Vice President Marketing
Busch Entertainment Corporation

John Stockton
Vice President Marketing
Roy Rogers Restaurants

John A. Ueberroth
President, Ask Mr. Foster
First Travel Corporation & Ask Mr. Foster Travel Service

Terry L. Underwood
Vice President Passenger Marketing
Greyhound Lines, Inc.

A. Russell Upshaw, Jr.
Vice President Government Affairs
Eastern Air Lines, Inc.

Ex-officio Members

William H. Edwards
National Chairman, Travel Industry Association of America, and President, Hilton Hotels Division
Hilton Hotels Corporation

William D. Toohey
President
Travel Industry Association of America

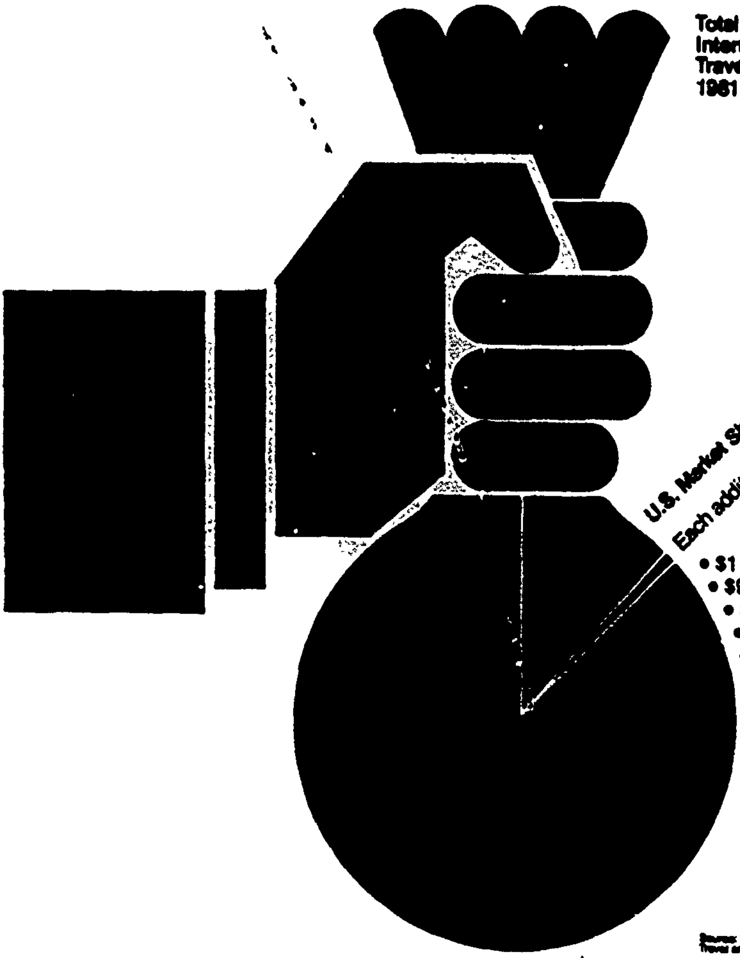
Appendix 3

Travel and Tourism Government Affairs Council
An Affiliate of the Travel Industry Association of America

U.S. Market Share of International Travel Receipts

U.S. share of world tourism receipts has declined from 13% in 1976 to 10.6% in 1980, returning to 11.5% in 1981 due primarily to a weak U.S. dollar.

Total World International Travel Receipts 1981



- $1 billion in receipts
- $95 million in federal taxes
- $49 million in state taxes
- $11 million in local taxes
- 28,500 new jobs

Source: World Tourism Organization and Travel and Tourism Government Affairs Council

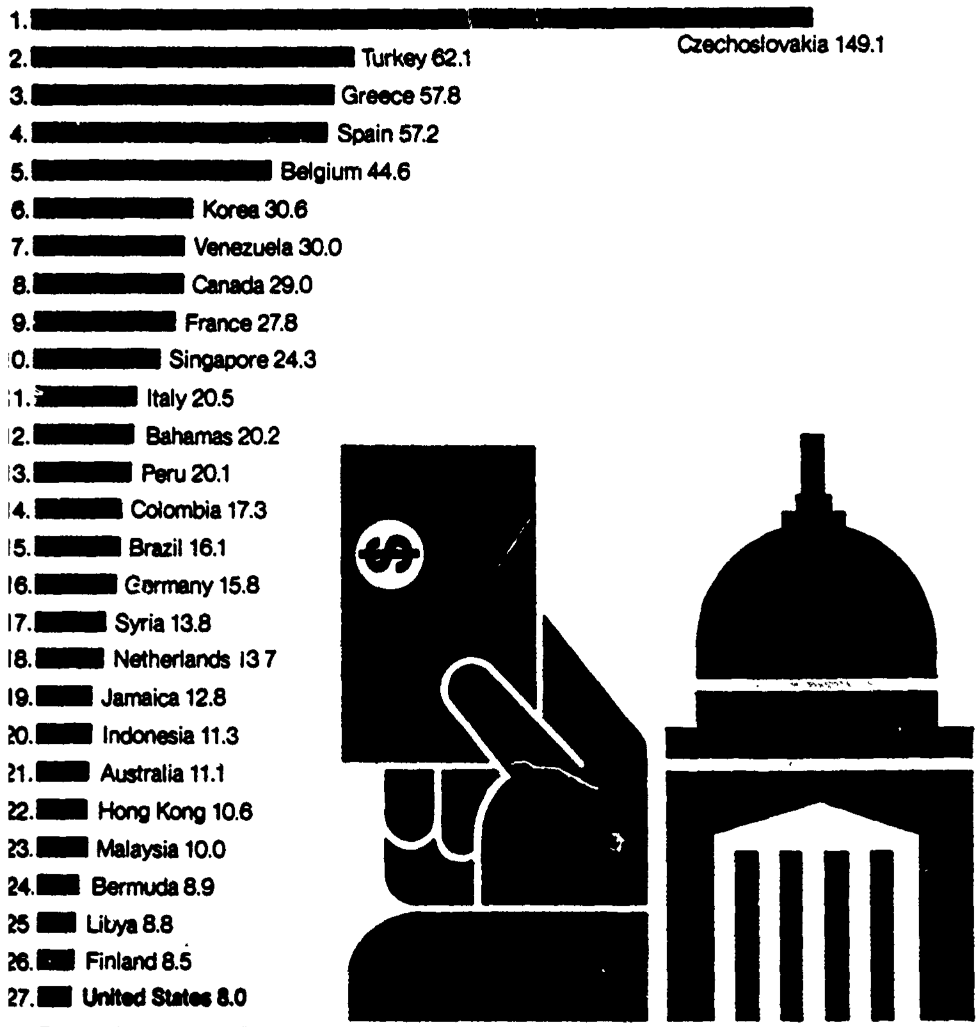
Appendix 4

Travel and Tourism
Government Affairs Council
An Affiliate of the
Travel Industry Association
of America

Total Spending by
National Government
Tourism Organizations

National Government
Funding of USTTA's
Counterparts
Worldwide (1981)

The average funding among developed nations of the world is almost 3.5 times as much as USTTA's funding.



Figures in millions U.S. Dollars

Source: World Tourism Organization and Travel and Tourism Government Affairs Council

Appendix 5

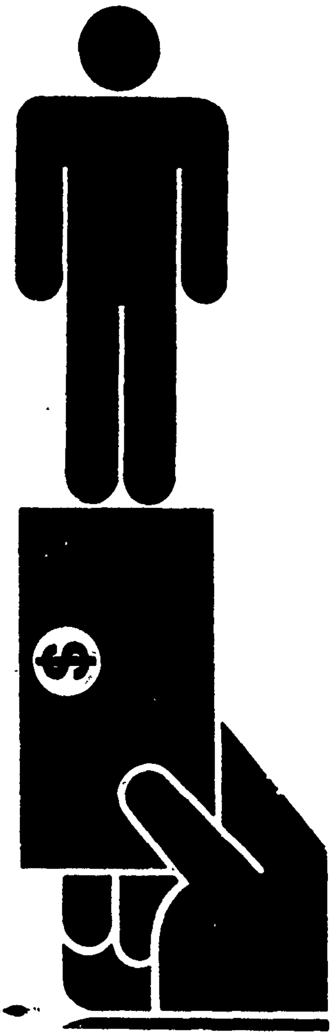
Travel and Tourism Government Affairs Council
An Affiliate of the Travel Industry Association of America

Per Capita Spending by National Government Tourism Organizations

The average among all countries of the world is over 100 times as much as USTTA's funding on a per capita basis.

The average budget for national tourism organizations worldwide is $3.53 per capita compared to the U.S. at 3½ cents per capita.

National Government Funding of USTTA's Counterparts Worldwide on a Per Capita Basis
(1981)



1. **Bahamas 85.39**
2. Curacao 24.30
3. Guam 17.76
4. Singapore 10.27
5. Czechoslovakia 9.82
6. Malta 8.77
7. New Caledonia 6.58
8. Greece 6.12
9. Jamaica 5.78
10. Cyprus 4.91
11. Belgium 4.53
12. Macao 3.65
13. Libya 3.01
14. Hong Kong 2.16
15. Tonga 1.91
16. Finland 1.79
17. Iceland 1.77
18. Venezuela 1.67
19. Syria 1.65
20. Luxembourg 1.58
21. St. Vincent & The Grenadines 1.58
22. Spain 1.52
23. Turkey 1.33
24. Canada 1.20
25. Peru 1.11
26. Dominica .99
27. Netherlands .96
28. Norway .90
29. Rwanda .87
30. Korea .76
31. Australia .75
32. Equador .75
33. Hungary .73
34. Malaysia .70
35. Colombia .68
36. Senegal .61
37. Ghana .53
38. France .52
39. Jordan .43
40. Chile .40
41. Algeria .40
42. Italy .36
43. Lesotho .36
44. Cameroon .33
45. Yugoslavia .27
46. Bolivia .27
47. Germany .26
48. Zambia .26
49. Paraguay .24
50. Sri Lanka .23
51. Argentina .22
52. Honduras .21
53. Togo .21
54. Sierra Leone .20
55. Tanzania .19
56. Yemen .16
57. Papua New Guinea .15
58. Brazil .13
59. Mauritius .13
60. Malawi .12
61. Kenya .12
62. Thailand .11
63. Botswana .06
64. **United States .035**

Source: World Tourism Organization and Travel and Tourism Government Affairs Council

Figures in U.S. Dollars

Travel and Tourism Government Affairs Council
An Affiliate of the Travel Industry Association of America

Growth in International Travel Receipts

The size of the international travel market has grown at an average rate of 19.28% per year for the last 5 years. U.S. growth in international travel receipts has trailed this growth by 5% on average over the last 5 years.