Collection:
Green, Max: Files, 1985-1988
Folder Title:
Domestic / Economic Policy
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Economy

Sprinkel -

T bills ↗
inflation - 7.4%
oil ↗
unemploy rate - 7.1% - sufficiently for
...
.4% ind. vators ~~on~~ up .7% last mo.

don't believe in nec. of cycles,

have been beginning to change -
inventories at low level.

↓ tax hike -
spending will ↑
less left for private sector

recession on top GNP since for 30-35 yrs
Spending up last yr 24% of GNP last yr
trying to s. down to 19%, = to receipts

FY 87 - ~~plan~~ cut 38 B (need to cut)
POTUS budget - not ↓ soc. sec., pens, defense and to raise
22 B cut out of total budget of almost trillion
and leave out defense, soc. sec. & interest on debt = 59%
if cut deficits
encourage investment,
~~freeze~~
curb rise in spending
C cuts in spending since prod will result to no correlation
w. onset of recession

Fried
1st all can rule to courts is liberal law - then liberal judges
"horizontal federalism"
2/ limitation by cts. how figure SCt can only
take 150 cases a yr
3/
Uniform support to be uniform.

Econ[illegible]

gist

A quick reference aid on U.S. foreign relations
Not a comprehensive policy statement
Bureau of Public Affairs • Department of State

Protectionism

February 1986

Background: Protectionism is a policy or intention of restricting imports to protect domestic industry from foreign competition. Protectionist measures remain a major impediment to world trade. In this century, protection was at its worst in the 1930s and was a major factor in deepening and prolonging the Great Depression. Several postwar rounds of multilateral tariff-cutting negotiations have reduced tariff barriers to relative insignificance for most products. The average duty in the US--60% on dutiable items under the Smoot-Hawley Tariff of 1930--had been reduced to 5% on dutiable items in 1983, and about one-third of US imports enter duty-free. Other industrial countries have matched these reductions. In this more liberal climate, world trade has expanded ninefold since World War II.

As customs duties progressively have lost their bite, however, nontariff measures have emerged as the main barriers to trade. These include quotas; unreasonable or unnecessary quality, health, or environmental standards; "buy domestic" requirements for government entities; government subsidies to strengthen domestic industry; and government tolerance of, or participation in, private sector collusion to resist imports.

Benefits of free trade: Freer trade promotes more robust economic growth by fostering competition and ensuring a more efficient allocation of scarce resources. It particularly benefits the importing country by providing cheaper or otherwise unavailable products to consumers and business. US industry, for example, depends in many ways on imported materials and equipment. Exports allow a country to enjoy the benefits of imports by earning the foreign currency needed to pay for them. Nevertheless, hard times, special circumstances, and the political muscle of individual industries often challenge free trade with calls for protection.

US trade deficits: Protectionism once again has emerged as an issue commanding national attention, in large part because of concern over record US trade deficits totaling $132 billion in 1984 and $148 billion in 1985. More than 300 trade bills, most of them calling for import restrictions of some kind, were submitted to Congress in 1985. Protection, however, will not reduce the US trade deficit. The deficit reflects our strong investment demand and our weak savings performance in recent years, factors that would not be altered by higher tariffs or other import controls. Other elements often cited as contributing to the deficit are: the high value of the dollar, the relative vigor of the US economy compared to our major trading partners, the debt burden that has caused some developing countries to throttle down their imports, and restrictive practices by our trading partners.

US position: President Reagan declared in September 1985 that "our trade policy rests firmly on the foundation of free and open markets--free trade." In a recent case involving a shoe industry petition for import relief, the President stated that protection is ineffective, extremely expensive, and often does more harm than good to those it is designed to help. Accordingly, the emphasis of US trade policy is on eliminating trade barriers wherever possible to allow greater scope for market forces to channel resources into their most productive uses.

Exceptions: US policy and international law, as expressed in the General Agreement on Tariffs and Trade (GATT), provide for temporary protection in certain situations:

- Unfair trade. US trade policy distinguishes between "fair" and "unfair" import competition. Unfair trade involves foreign goods that are subsidized, dumped (that is, sold at less than the production cost or fair market price in the home market), or otherwise supported by government assistance to that industry. Measures to encourage exporters to play by the rules and to protect US industry from injurious unfair competition are an integral part of US trade policy. The GATT recognizes the right of governments to levy duties to offset dumping or export subsidies.

- Balance of payments and infant industry protection. The GATT permits temporary import restrictions to forestall a serious decline in a member country's monetary reserves or, in the the case of poor countries, to permit an industry to establish itself. Neither applies to the current US situation.

- Adjustment to imports. US trade law and the GATT also recognize that over the short run import competition can cause unacceptable hardship. The US economy is constantly evolving, moving from traditional industries to today's high tech, and the process of change can devastate groups of workers or particular communities. Thus the President is empowered to grant temporary import relief to industries found by the US International Trade Commission to be injured or threatened with injury by import surges. The purpose is to smooth the adjustment to changing competitive conditions, not to freeze the US in outmoded industries or technologies. As one option, the President may use Trade Adjustment Assistance to aid workers displaced by imports to retrain or find new jobs.

For further information: See also the Department of State GIST on "US Trade Policy." The "Administration Statement on International Trade Policy," September 23, 1985, is available from the Public Affairs Office of the US Trade Representative, 600 17th Street, N.W., Washington, D.C. 20506.

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BERNARD GOTFRYD—NEWSWEEK

Rocky marriages? *Eastern and New York Air were once fierce competitors*

Antitrust's New School

Recent deals will test whether 'anything goes'

At Stanford University's law school, the students call William Baxter's course on antitrust policy "protrust." In Washington, they understand why. Baxter, in his two years as assistant attorney general during Ronald Reagan's first term, set a standard for antitrust enforcement radically different from any other in the 90-year history of trustbusting. Nowadays, quite literally, the first question the Justice Department asks is: how can we help this merger go through? This revolution in enforcement has done much to prompt the recent surge of huge corporate combinations. "Businesses are taking a shot at deals today they never would have thought of five years ago," says Robert Pitofsky, dean of Georgetown University's Law Center. A growing number of critics condemn the "anything goes" atmosphere. But the administration's defenders contend, not without some justification, that today's antitrust doctrine is a long overdue reflection of economic reality. Says W. Stephen Cannon, an aide to current Assistant Attorney General Douglas Ginsburg: "Much of past antitrust enforcement was confused, mixing populist sentiment into what should be reasoned economic analysis."

Whether anything does indeed go will become clear in the near future. Justice soon will issue opinions on highly controversial mergers in the airline and soft-drink industries. By ›rior enforcement standards, ›ca-Cola's and PepsiCo's plans ›uy Dr Pepper and Seven-Up, respectively, would probably be laughed out of court. Those companies combined make up more than 80 percent of the soft-drink market. Now, however, Justice may question whether market concentration in soft drinks alone is the proper guide in looking at these deals. Since people drink more than sweet, carbonated beverages, perhaps everything from orange juice to beer ought to be considered Coke's and Pepsi's competition. Under this broad interpretation of the "relevant market argument," Justice may deny that the soft-drink giants could raise prices easily. Approval of the deals is hardly a foregone conclusion, but this reasoning, admits Cannon, will be "crucial" in deciding Justice's position.

The two proposed airline mergers are just as difficult to justify. Northwest and Republic Airlines control 70 percent of the traffic out of Minneapolis. Airline analysts, who have seen most deals go through lately, are questioning this one's viabilty. Texas Air Corp.'s proposed takeover of Eastern is equally troublesome. New York Air, a Texas Air subsidiary, and Eastern dominate the heavily traveled northeastern corridor, and they compete on 30 other routes as well. Even former antitrust chief Baxter looks a bit askance at these doings. "Don't assume that some of the current proposals may not be challenged," he says. "I'd be suprised if [they] don't find some problems on the New York-Washington shuttle."

Asset sales: Still, if past performance holds, the administration may seek a way to let the marriages go through. Rather than simply disallowing mergers, Reagan trustbusters frequently require companies to divest overlapping assets. Baxter Travenol and American Hospital Supply, for example, had to shed $200 million in assets before getting approval. Now they could plausibly ask Eastern or Texas Air to give up gates at key airports. Critics say that such asset sales aren't sufficient and that competition in some industries is diminishing. Finally, the debate over antitrust policy is heating up—and considering the deals still pending, it's likely to get even hotter.

BILL POWELL *with* RICH THOMAS *in Washington*

Manna From Heaven? No. Bagels in Mattoon

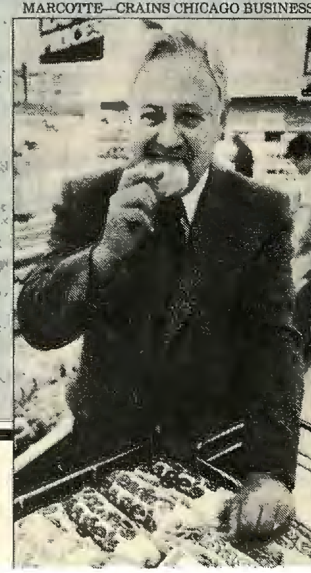
If you think the Bible story of manna falling in the desert strains credulity, consider: Kraft, Inc., is about to open the world's largest bagel factory, not in some trendy East Coast ethnic enclave, but in the blue-collar Illinois town of Mattoon. There, the welcome news of 75 to 100 new jobs has been tempered by one small befuddlement. In downstate Mattoon, as in much of America, many people aren't sure just what a bagel is. Newspaper editor Terry McCullough, for one, recalls his Jewish movie critic introducing bagels to the Gentile newsroom staff one Saint Patrick's Day.

Mattoon is to be forgiven its blind spot over a bakery product historically associated with the Ashkenazim. Jews are so rare in southern Illinois that Mattoon's temple attracts no more than 50 congregants for the high holy days. But Kraft is betting that its frozen Lender's brand bagels will continue to pierce new markets in the Midwest, South and West—regions easily supplied by truck from Illinois.

Only 18 percent of the U.S. population has tasted a bagel, but consciousness no doubt will rise when Kraft is baking a million bagels a day. Local wits already have urged that little bagels replace the two O's on Mattoon's official stationery. Mayor Roger Detro, a dentist, is licking his chops over another possibility: "Who knows, maybe something this chewy will pull out some fillings or break off a few teeth."

Tasty: *The mayor tries a treat*

MARCOTTE—CRAINS CHICAGO BUSINESS

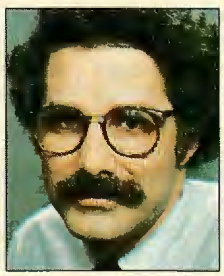


Inflation's Grim Lessons

Economy

They said it couldn't be done. Who would have thought, even six months ago, that the consumer price index would actually drop? In February, it did. People who believe that life ought to be orderly are surely bewildered; there has been nothing orderly about inflation's decline, just as there was nothing orderly about its climb. But its rise and fall constitute one of the great, defining experiences of our age: a 25-year episode that needs to be understood if its mistakes are not to be repeated. What we have learned (or should have) is that price stability is not an economic or political luxury. It is a basic underpinning of our prosperity and social well-being.

Once a fantasy, price stability now lies within our grasp. Lower oil prices, falling global interest rates and booming world stock markets are not mere coincidences. They signal a successful conclusion—at least for the moment—of the assault against inflation. It has been a brutal process, the economic equivalent of Sherman's march to the sea. High interest rates, spread around the world by the United States, caused global stagnation. Steep unemployment and surpluses of everything from grain to steel to oil suffocated inflation.



Its legacy lingers even as price stability finally becomes possible

We have spent the first half of the 1980s exorcising the accumulated inflation of the previous two decades. In 1986 inflation in the major industrial countries will drop to levels prevailing in 1960. In Japan and Germany, inflation will be virtually nonexistent. The same is possible in the United States, though 2.5 percent inflation is a more common estimate. The easing of these anti-inflationary pressures now promises a revival of economic growth and a more balanced global recovery, less dependent on the United States. In 1986 Europe's unemployment rate may fall for the first time since 1979.

Lost optimism: But inflation's toll has been appalling. Its debris is everywhere. Rising inflation was surely one cause of the 1970s stagnation of living standards. Developing nations remain overburdened with debt; so do U.S. farmers. Banks are laden with shaky loans of all sorts. Inflation's enduring temptation is to buy on credit and repay in cheaper money. But if inflation subsides, the calculus collapses, and debtors and creditors alike are left teetering on the edge of ruin. These lingering problems, among others, cast a continuing cloud over the global recovery.

Inflation's greatest ravages, though, were not economic, but social. It discredited government, subverted national self-confidence and inspired fear. People felt they couldn't plan for the future. In the late 1970s, when double-digit inflation emerged in the United States, Americans temporarily lost their traditional faith that the future would be better than the past. Ronald Reagan owed his 1980 election mainly to the anxieties and discontents caused by inflation, and inflation's decline—though orchestrated by Paul Volcker's Federal Reserve—has been the greatest accomplishment of the Reagan years.

Stopping inflation is always a wrenching process, because inflation creates vested interests and new attitudes. Farmers who had bought land at inflated values had little stake in controlling prices. Workers became accustomed to large wage gains, even when "real" (inflation-adjusted) increases were negligible. In many countries, wage indexing made inflation self-perpetuating. Yesterday's price increase became today's wage increase, which became tomorrow's price increase. The belief that people had protected themselves against inflation fostered the illusion that they weren't hurt by it.

How did we get into this mess?

Economic management: Modern inflation fundamentally originated in ideas that, in the 1960s, became conventional wisdom throughout much of the industrial world. Governments could (it was argued) manage their economies to produce constant economic growth, full employment and higher living standards. In a technical sense, of course, inflation—a sustained rise of prices—is always too much money chasing too few goods. The world's central banks, such as the Federal Reserve, create the money that propels inflation. But central banks are rarely truly independent; they ultimately reflect popular attitudes and political pressures, and modern ideas of economic management inevitably led to inflationary tides of money.

The triumph of these ideas eroded the traditional disciplines that checked inflation. Businesses and workers resisted reducing wages and prices, even during occasional recessions, because they believed—not unreasonably—that government would act quickly to promote recovery. The idea that government budgets ought to be balanced became a stodgy anachronism. In 1960 only 6 of 23 industrial democracies had overall budget deficits. By 1982, only 2 were not in deficit. Central banks responded to these pressures by maintaining low interest rates and creating ample supplies of new money to foster low unemployment and help governments finance their budgets.

Inflation was insidious, precisely because it did not arrive in a great, conspicuous burst. Small rises were rationalized as an acceptable cost of lower unemployment. The commitment to economic growth meant governments wouldn't condone the higher interest rates and stingier money growth needed to contain rising prices. Once started, inflation fed on itself. Oil price increases did not cause inflation but simply exaggerated the underlying trend. Only when public tolerance for ever-rising inflation was exhausted did the process stop.

In country after country it worked the same way. The constant effort to maintain economic growth and to avoid unemployment led to higher and higher money growth. But this similarity obscures a subtler and, for Americans, more disturbing truth: the United States bears much of the blame for the problems of global inflation. We Americans increasingly see