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Sprinkel, Beryl W. : Files
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Textile Bill (1 of 2)
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J. Mossa

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Kedutaan Besar Republik Indonesia
Embassy of The Republic of Indonesia
Washington, D. C. 20036

Chancery
2020 Massachusetts Avenue, N. W.
Telephone 293-1745

THE AMBASSADOR

October 4, 1985

The Honorable
Beryl W. Sprinkel
Chairman
Council of Economic Advisers
Room 314
Old Executive Office Building
Washington, D.C. 20500

Dear Mr. Sprinkel:

My government has been carefully monitoring recent developments in the United States Congress with respect to the proposed "Textile and Apparel Trade Enforcement Act of 1985", known as the Jenkins bill, and we have previously conveyed to you our serious concern relating to this bill. In this connection, we also are aware that several modified versions of the bill are currently being considered, under which Indonesia would no longer be considered a "major exporting country". Under the proposals, Indonesia's textile imports to the United States in 1985 would be limited to 1984 levels and growth in following years would be limited to one percent per year.

While recognizing that the initial impact of the most recent proposals on Indonesia would be somewhat less severe than those of the Jenkins bill, my government wishes to convey to you its continued grave concern over any measure that imposes quotas on imports of textiles and apparel. Any unilateral imposition of quotas violates the basic premise under the Multi Fibre Arrangement ("MFA") and GATT that quotas will be imposed only in accordance with prescribed procedures. Moreover the levels in existing proposals are inconsistent with levels agreed upon in bilateral negotiations between our governments and are significantly reduced from the levels required in MFA.

The unchanged, discriminatory nature of the existing proposals also continues to cause serious concern to my government. This discriminatory treatment appears even more odious in light of recent import statistics which indicate that textile imports from Far Eastern nations have declined during the first eight months of 1985, while textile imports from EEC countries, exempted from the current proposals, have increased by 21.6 percent during that period. Such unequal treatment, particularly in light of the statistics, raises serious questions as to how the United States views its relations with Indonesia.

Finally, the restrictive nature of the new proposals would have a substantial adverse impact on the Indonesian economy thereby reducing Indonesia's ability to buy U.S. goods and services.

Rest assured that Indonesia continues to be committed to cooperate fully with the United States to expand and liberalize trade between our nations for our mutual benefit.

Yours sincerely,

A. Hasnan Habib
Ambassador

BACKGROUND BRIEFING PAPER ON CURRENT U.S.-INDONESIAN TRADE ISSUES

This paper summarizes major points for maintaining the excellent bilateral trading relations that exist between the United States and Indonesia and highlights some arguments against recent measures proposed to limit the export of textiles from Indonesia to the United States.

- Two-way trade between the United States and Indonesia in 1984 totalled $6.7 billion. Much of the Indonesian export effort to the United States has comprised crude oil and other petroleum products which are developed in Indonesia largely in partnership with American oil firms. Excluding oil, the United States enjoys a strong positive balance of trade with Indonesia. This positive balance is further enhanced by including invisible earnings generated through U.S. service industry exports to Indonesia.

- Much of the added value export content contained in the $252 million of textile exports to the United States from Indonesia represents previous imports from the United States in the form of cotton yarn and other raw material component supplies. In 1984, Indonesia purchased $153 million of cotton from American producers. Further, many Indonesian textile companies use American capital goods and production machinery, finance from American banks and U.S. consulting inputs, shipping and related services to generate the finished products. Measures which seek to contain the level of Indonesian textile exports to the American market will thus have a more important impact on the United States economy than might appear at first reading of such protectionist legislative initiatives.

o The protectionist legislation proposed in the U.S. Congress would, if enacted, represent a unilateral abrogation by the United States of its obligations under already-negotiated trade agreements. The Government of Indonesia is concerned that such action could create a serious precedent for other agreements that may be entered into between these two friendly nations.

o The measures detailed in the proposed legislation will seriously diminish the chances for extending the Multi Fiber Arrangement, the textile trade pact which has facilitated an orderly expansion of world trade in textile and apparel products. If enacted, they will imperil further liberalization of international trade under GATT.

o Indonesia is a signatory to the Multi-Fiber Arrangement (MFA), has been a participant in the General Agreement on Tariffs and Trade (GATT) and has also entered into bilateral agreements in the textile area with the U.S. It has shown its willingness to participate as a full partner in international trade and has honored its obligations under international trading agreements.

o In singling out primarily Asian nations for punishment under the proposed new law and in excluding European nations from the provisions of the Bill, a clearly discriminatory view of Asian nations has been shaped on Capitol Hill. At least three of the European nations excluded from the measure export more textile products to the United States than does Indonesia, and two of these are the fifth and sixth largest textile exporters to the United States. In addition, growth in the volume of textile exports from

European Common Market countries has been greater than from any other region.

Embassy of the Republic of Indonesia
2020 Massachusetts Avenue, N.W.
Washington,D.C. 20036

Contact Person:

Mr. A.S.Achjadi
Minister Counselor (Information)

Telp.: (202) 775-5266

Textiles

AFTAC AMERICAN FIBER, TEXTILE, APPAREL COALITION

1[illegible] CONNECTICUT AVENUE, NORTHWEST, WASHINGTON, D.C. 20036 (202)862-0500

July 2, 1986

The Honorable James A. Baker III
Department of the Treasury
15th & Pennsylvania Avenue, NW
Washington, D.C. 20220

Dear Mr. Secretary:

This letter is sent to you in your capacity as Chairman of the Economic Policy Council. It concerns the failure of the advisory process mandated by the President for textile and apparel import negotiations.

This advisory process began with textile and apparel negotiations conducted with Japan in the late 1950's. It has been utilized by our government in all bilateral and multilateral textile and apparel negotiations during the following three decades. The process involves industry and labor advice to the government on industry conditions, and the impact of negotiating alternatives on the fiber, fabric and apparel complex and its workers.

The advisors are all required to have security clearances so that they can be privy to negotiating terms, tactics, and strategy. To be effective, these advisors must be directly involved at every negotiating stage. The process is no longer being used properly, in spite of the President's commitment to "closely consult with the U.S. textile and apparel industry to ensure that their views will be fully represented during the negotiations" in his message of December 17th vetoing the Textile and Apparel Trade Enforcement Act.

The most recent result of the Administration's failure to use the advisory process is the agreement with Hong Kong which falls far short of being in the best interests of the U.S. industry and its workers. The Hong Kong government, we understand, reviewed the terms of the final agreement with its industry advisors prior to its acceptance. In stark contrast, U.S. advisors were not consulted at all about the final settlement. As a result, critical elements of the agreement were concluded without industry advice as to their consequences.

Another serious breakdown in the advisory process occurred during the recently negotiated textile agreement with the government of Turkey. The advisors were never consulted during the final round of negotiations and were only informed of the talks <u>after</u> the agreement had been concluded.

Thus, another Presidential commitment has been rendered meaningless by U.S. negotiators. Negotiations have been scheduled with other governments and we would insist that industry advice be heeded. This is yet another reason to reaffirm our position that a legislative solution is the only option if a viable textile and apparel industry and the two million jobs it provides are to be preserved.

Sincerely,

Dewey L. Trogdon

Dewey L. Trogdon, President, American Textile Manufacturers Institute

John Gregg /cmm

John Gregg, Chairman, Man-Made Fiber Producers Association

John G. Young /cmm

John G. Young, Chairman, American Apparel Manufacturers Association

Murray H. Finley /cm

Murray H. Finley, President, Amalgamated Clothing and Textile Workers Union

Jay Mazur /cm

Jay Mazur, International Ladies' Garment Workers' Union

Sam Hollis /cm

Sam Hollis, Chairman, National Cotton Council

DRSECEPC/#11/cmm

cc: Members of the Economic Policy Council

Textiles

CABLE ADDRESS: INDONESIA

KEDUTAAN BESAR REPUBLIK INDONESIA
EMBASSY OF THE REPUBLIC OF INDONESIA
WASHINGTON, D. C. 20036

CHANCERY
2020 MASSACHUSETTS AVENUE, N. W.
TELEPHONE 775-5200

THE AMBASSADOR

August 4, 1986

Mr. Beryl W. Sprinkel
Chairman
Council of Economic Advisers
Room 314
Old Executive Office Building
Washington,D.C. 20500

Dear Mr. Sprinkel;

My government wishes to convey to you its continued grave concern about the vote scheduled for August 6 to override President Reagan's veto of the legislation to limit textile imports known as the Hollings-Thurmond Amendment to S. 1730, the Senate's version of the Textile and Apparel Trade Enforcement Act of 1985.

The legislation is repugnant to the Government of Indonesia because the unilaterally-imposed quotas contained in the legislation violate U.S. international obligations under the Multifiber Arrangement and the bilateral textile agreement between the Government of Indonesia and the Government of the United States. These regimes require all party nations, including the United States, to impose textile quotas only in accordance with prescribed procedures. Moreover, this legislation discriminates against Indonesia and other non-European nations while permitting the rapidly-rising imports from EEC countries and Canada to continue unchecked. Finally, the quotas in the legislation would have a seriously adverse effect on the Indonesian economy, thereby reducing the ability of Indonesian individuals to purchase U.S. goods and services.

My Government is concerned that these profoundly objectionable quotas could result in an overall negative effect on U.S.-Indonesian trade relations. We are well aware of an support the Administration's continued efforts to avert a veto override and urge you and other key members of theAdministration to press forward with unabated vigor in the upcoming days.

Rest assured that the Government of Indonesia is committed to maintaining continued friendly and mutually beneficial trade relations between our nations.

Yours Sincerely,

Ambassador Soesilo Soedarman

8
CEA
(FYI)

with compliments

Herbert Stein

For Release: A.M. Sunday August 3, 1986

ECONOMISTS' STATEMENT ON PROTECTIONISM

August 3, 1986

The following statement was approved unanimously by the Chairmen of the President's Council of Economic Advisers of the past thirty years:

* * * * * *

Congress will soon be considering legislation that would impose additional limits on imports into the United States. Two bills are most important today. One would limit imports of textiles and apparel; the other would restrict imports in a number of ways including putting a limit on total imports from countries that export much more to us than they import from us.

We believe that such legislation would be damaging to most Americans and to the country as a whole.

The idea that limitation of imports would be helpful to the United States is based on several factual errors:

1. **ERROR:** Employment has suffered and unemployment has worsened during the period of rapidly rising imports. **IN FACT:** Since 1980, the period of most rapid increase in our trade deficit, employment has increased by 10 million, and unemployment is now just about where it was six years ago.

2. **ERROR:** The United States is being "deindustrialized" by imports. **IN FACT:** Since 1980 manufacturing production has risen substantially and slightly faster than total GNP (18 percent vs. 15 percent).

3. **ERROR:** Production of textiles and apparel has been reduced by import competition. **IN FACT:** Textile mill production in the United States reached an all-time high in February 1986 and in May (latest figure available) was less than one percent below its peak. Apparel production in May was only 2 percent below its all-time peak. The unemployment rates of persons previously employed in the textile or apparel industries is now lower than in 1980.

4. **ERROR:** The imposition of protectionist measures can reduce the U.S. trade deficit and raise employment. **IN FACT:** Restricting some kinds of imports would, for several reasons, increase imports of other kinds and make it harder to sell our own exports. We would set off a round of retaliatory measures by other countries that would further restrict our overseas sales. Import restrictions would shift jobs around among industries but would not create new jobs.

While the protectionist measures that are now being debated would fail to accomplish the benefits that are claimed for them, they would do extensive harm to the American people. Millions of Americans would have to pay more for what they buy. Indeed, under some provisions of the omnibus trade bill the United States government would be helping foreign producers set up cartels through which they could charge American consumers higher prices. Many Americans would lose job opportunities in the highly productive export industries. Most Americans would suffer a loss in real income.

The United States trade deficit did not grow from a small number in 1980 ($25 billion) to the present level of around $150 billion because foreign countries suddenly began to engage in unfair trade or financial practices. Rather, today's trade deficit is largely the result of our own national policy, the symbol of which is this year's federal budget deficit of over $200 billion.

	Period of service as Chairman of Council of Economic Advisers
Arthur F. Burns	1953 - 1956
Raymond J. Saulnier	1956 - 1961
Walter W. Heller	1961 - 1964
Gardner Ackley	1964 - 1968
Paul W. McCracken	1969 - 1971
Herbert Stein	1972 - 1974
Alan Greenspan	1974 - 1977
Charles L. Schultze	1977 - 1981
Murray L. Weidenbaum	1981 - 1982
Martin Feldstein	1982 - 1984

For information call:

Charles L. Schultze (202) 797-6295 (w)
(202) 966-5667 (h)

or

Herbert Stein (202) 862-5899 (w)
(202) 965-2098 (h)

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

August 13, 1986

Dear Herb:

I want to thank you very much for organizing the former CEA Chairmen in drafting the statement on textiles. I am convinced it made a significant contribution to the President's successful effort at sustaining his veto. It is important to have friends outside the Administration, and I appreciate being able to count on you.

With best personal regards,

Sincerely,

Beryl

Beryl W. Sprinkel

The Honorable Herbert Stein
Senior Fellow
American Enterprise Institute
1150 17th Street, N.W.
Washington, D.C. 20036

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

August 13, 1986

Dear Charlie:

I want to express my deep appreciation for your efforts in behalf of free trade. I very much appreciate your spirit of bipartisanship in this important issue. I know it cannot have been easy for you, and I just hope that when I am out of office, I will be able to show the same ability to let principles rise above politics.

With my best personal regards,

Sincerely,

Beryl

Beryl W. Sprinkel

The Honorable Charles Schultze
The Brookings Institution
1775 Massachusetts Avenue, N.W.
Washington, D.C. 20036

For Release: A.M. Sunday August 3, 1986

ECONOMISTS' STATEMENT ON PROTECTIONISM

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MEMORANDUM

COUNCIL OF ECONOMIC ADVISERS

August 1, 1986

MEMORANDUM FOR DAVID CHEW

FROM: Margot Machol MEM

SUBJECT: Release of CEA's Analysis in Support of the President's Veto of The Textile and Apparel Trade Enforcement Act of 1985

The attached memo presents CEA's analysis of the Textile and Apparel Trade and Enforcement Act of 1985. It presents reasons for sustaining the President's veto of this objectionable legislation. We would like to release this memo to supporters of the President's position in the Congress. We would appreciate a quick turnaround as the House will be considering the over-ride early next week. Thank you.

SUSTAINING THE PRESIDENT'S VETO OF THE TEXTILE AND APPAREL TRADE ENFORCEMENT ACT OF 1985

Override of the President's veto of the Textile and Apparel Trade Enforcement Act would cost American consumers $44 billion over the next five years. This cost would come primarily from increasing the already high level of protection afforded to our domestic textile and apparel industries, and to a lesser extent from extending protection to our footwear and copper industries. Overall economic efficiency and growth would be diminished by shifting employment of domestic resources toward these protected industries and away from other, more productive uses. For the average $13,000 a year job that would be diverted from more productive sectors of the economy, consumers would pay an additional $70,000 per year.

Moreover, enactment of this bill over the President's veto would violate our commitments under the General Agreement on Tariffs and Trade (GATT) and the Multifiber Arrangement (MFA), and would undermine the economic and moral basis for our initiatives to open foreign markets to U.S. exports.

It would seriously damage prospects for a successful round of new trade talks that would address many issues critical to U.S. economic interests. As occurred in the recent case of restrictions against imports of cedar shakes and shingles from Canada, override of the President's veto would invite foreign retaliation against $50 billion of our exports (including large quantities of soybeans, wheat, cotton, tobacco and aircraft) by the 12 leading textile and apparel exporters. In the end, unilateral imposition of new trade barriers in textiles, apparel, footwear and copper would harm the U.S. economy and threaten the open system of international trade that has contributed importantly to the prosperity of the free world in the postwar era.

Provisions of the Bill

The three leading textile and apparel exporters (Taiwan, South Korea and Hong Kong) would be required to cut their exports to the U.S. to 30 percent below 1984 levels and to restrict subsequent export growth to no more than 1 percent per year. Nine other textile and apparel exporters (each accounting for more than 1.25 percent of U.S. imports) would be cut back to 1984 export levels, with one percent annual growth permitted thereafter. Other textile and apparel exporters (excluding the EC, Canada, Mexico and the CBI countries) would be subject to less restrictive quotas.

Imports of nonrubber footwear would be cut back about 15 percent from current levels, and the import share would then be frozen for 8 years. Important exporters of copper to the U.S. would be required to reduce exports to 1982 levels, and less important exporters to 1984 levels. These provisions relating to footwear and copper have substantial costs for consumers and for the economy, but these costs are relatively small in comparison with the effects of the provisions relating to textiles and apparel.

The U.S. Textile and Apparel Industry

For the past two decades, the textile and apparel industry has benefited from high levels of protection and on net has probably been our most heavily protected major domestic industry. The tariff rate on textile and apparel imports averages about 20 percent, versus a 3 percent average tariff rate on all imports. Quantitative restrictions on textile and apparel exports agreed to by other countries increase average protection for our domestic industry by approximately another 20 percent, for an overall average rate of protection of about 40 percent for this industry.

The present level of protection of the U.S. textile and apparel industry has very substantial costs for American consumers. Nevertheless, recognizing the special problems of workers and firms in this industry, the President has not recommended reducing current levels of protection. In his veto of the Textile and Apparel Trade Enforcement Act, the President simply opposes a costly, substantial and unjustified increase in the level of protection for this particular industry.

The facts do not indicate that the textile and apparel industry requires additional protection. As shown in the attached charts, domestic outputs of textiles and apparel have been on generally rising trends and currently are slightly above their growth trends. Hours worked in textiles and apparel have been on declining trends, but these declines in labor use reflect primarily the rapid growth of productivity in textile and apparel production. This phenomenon is apparent in many goods producing industries, including some that do not face significant foreign competition.

On the whole, the textile and apparel industry employs relatively low wage workers, but it is not the only industry that employs such workers. The American economy has created more than 10 million new jobs since 1982 in a wide variety of skill categories and has successfully integrated millions of new workers into the labor force. The high turnover rate of workers in the textile and apparel industry indicates that workers generally enjoy substantial mobility into and out of this industry.

Sudden contractions of employment in areas heavily dependent on the textile and apparel industry will create adjustment problems for affected workers, as do such employment contractions in other industries. However, the problems of particular textile and apparel producers and their employees are not uniquely the consequence of import competition. In a highly competitive industry with rapidly improving technology, less efficient enterprises inevitably tend to be crowded out by their more efficient domestic competitors.

Moreover, there is no credible evidence for the belief that maintaining additional jobs in textiles and apparel through protectionism would add a comparable amount, or indeed any significant amount, to total employment. In Western Europe, which is generally more protectionist than the United States, employment has stagnated during the past decade. In contrast, the U.S. economy over the same period has created jobs for 20 million more workers. Protectionism only diverts employment toward particular industries; for the economy as a whole, it does not create employment.

In terms of profitability, the textiles and apparel industry appears to have been doing about as well as all of manufacturing. For textile mill products (data not available for other categories) the average rate of return on equity over the last three years was 10.6 percent versus 11.1 percent for all manufacturing. Preliminary evidence indicates significant profit gains for textile mills in 1986. Further, publicly traded firms in the textile and apparel industry had strong stock market performance in 1985.

Thus, while some individual textile and apparel firms will undoubtedly experience difficulties, there is no indication that greater protection is required to forestall a general collapse of the industry. Increased protection might help some marginal firms stay in business. However, the firms that would benefit most from protection are the most efficient and already highly profitable enterprises in the textile and apparel industry.

The Cost of Protection

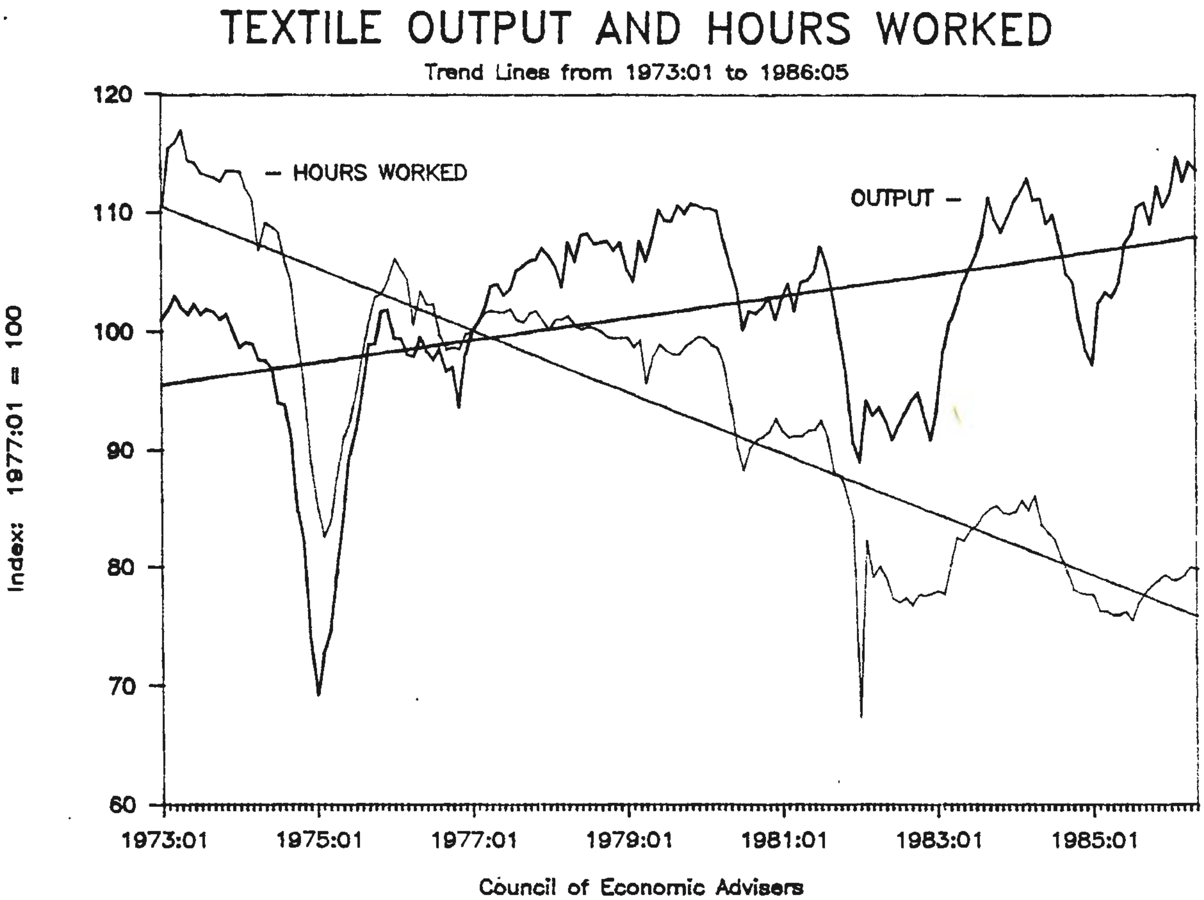
The restraints on exports of foreign textiles and apparel to the United States that are mandated by the Textile and Apparel Trade Enforcement Act would increase substantially the domestic price of imported textile and apparel products. Domestic producers of competing products would increase their prices, though perhaps to a somewhat lesser extent. Retail sellers of these products would add their mark-ups to the price increases of their foreign and domestic suppliers. All told, increases in the retail prices of textiles and apparel would cost consumers an estimated $7 billion in the first year of the Act.

In later years, the cost to consumers would be higher. This is because the Act allows very little of the normal increase in consumer demand to be met by increased imports. Accordingly, textile and apparel prices would rise over time, relative to the prices that would prevail without the Act. Over five years, the total cost to consumers is estimated to be $44 billion.

Some of this consumer cost would accrue as increased profits and wages of domestic firms and workers--the so-called gain of "producer surplus" from trade restraints. However, it may be of little comfort to consumers to know that part of their increased expenses have helped to increase the profits of already highly profitable firms and/or to provide employment in the textile and apparel industry of workers who otherwise would have been employed in other industries.

Moreover, much of the cost of increased protection to consumers will either be lost as a gift to foreign producers or swallowed up in reduced economic efficiency. When we force up the price we pay for imported textiles and apparel by requiring foreigners to restrict their exports, foreign producers capture the benefit of these high prices. They sell less, but they make a higher profit on each unit they still sell and avoid the cost of producing the units they no longer sell. When we induce expansion of domestic textile and apparel production through increased protection, we divert resources into this industry that could be and would be more productively employed in other industries. Consumers pay for this loss of productive efficiency through higher prices for textiles and apparel.

Finally, unilateral action to increase protection for the U.S. textile and apparel industry threatens serious damage for other U.S. industries. Such action would violate our commitments under the GATT, the MFA, and other bilateral agreements. Exporters of textiles and apparel might well feel legally and morally entitled to retaliate against U.S. exports. The likelihood of such retaliation is difficult to assess. However, it seems very likely that unilateral action to restrict further and substantially U.S. textile and apparel imports will make exporting countries less responsive to important U.S. initiatives to open foreign markets to U.S. exports of goods and services and to secure protection of intellectual property rights. Moreover, the moral basis for the Administration's efforts to promote free and fair trade would be jeopardized by enactment of a protectionist trade bill over the President's veto. Thus we may easily scuttle efforts by the U. S. to expand trade through another GATT negotiating round.


TEXTILE OUTPUT AND HOURS WORKED
Trend Lines from 1973:01 to 1986:05
120
110
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Index: 1977:01 = 100
– HOURS WORKED
OUTPUT –
1973:01
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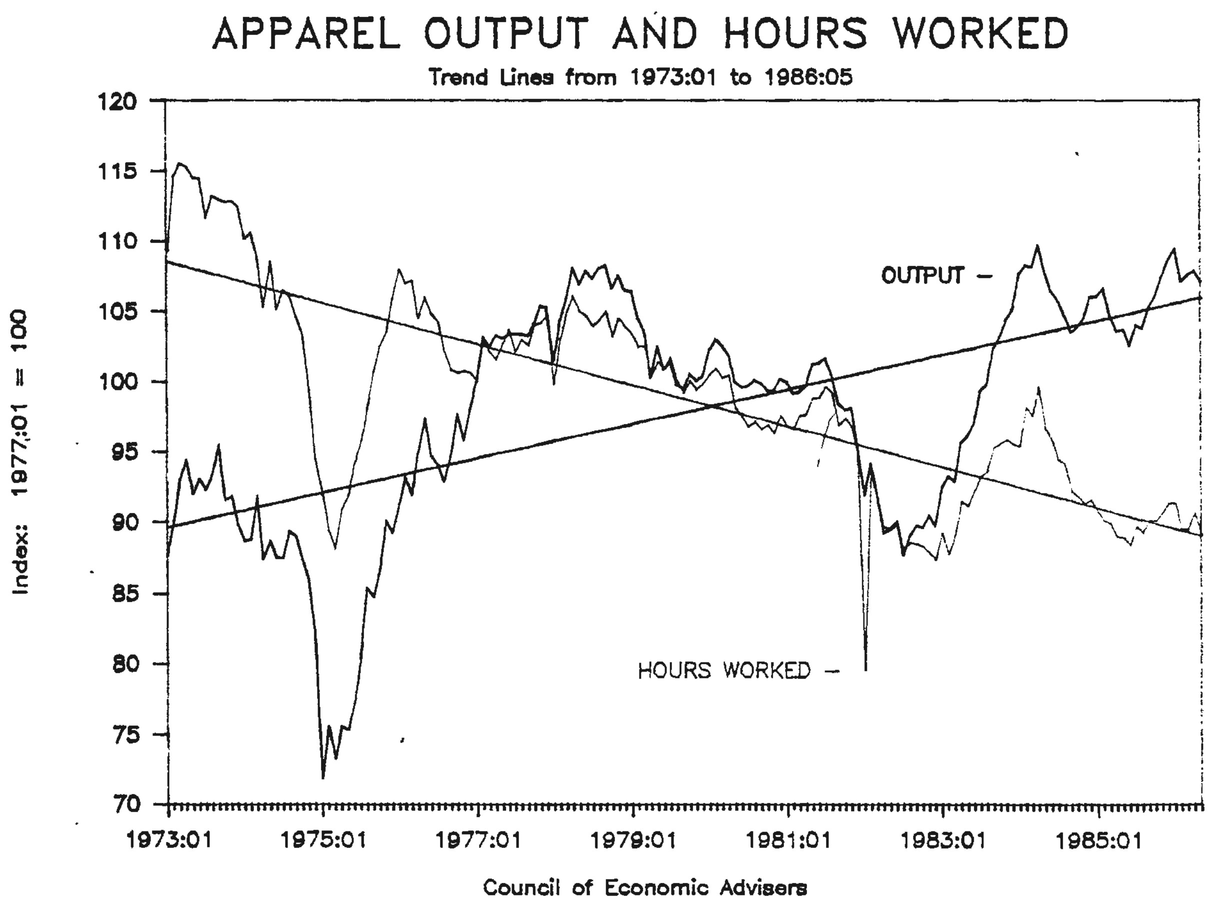
Council of Economic Advisers


APPAREL OUTPUT AND HOURS WORKED
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1977:01
1979:01
1981:01
1983:01
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Council of Economic Advisers

TEXTILE AND APPAREL TRADE ENFORCEMENT ACT OF 1985

This bill protects the U.S. textile, apparel, footwear, and copper industries by imposing new import quotas or further restricting existing quotas, and by slowing future import growth. The textile and apparel industries are the focus of this analysis. The bill is most restrictive with respect to imports from the three major foreign suppliers of textiles and apparel, forcing a 30 percent decrease in U.S. imports from these countries. Other exporters are restricted less severely so that total textile and apparel imports fall by 10 percent in the first year.

The additional protection that would be afforded to the textile and apparel industries is estimated to cost consumers $7 billion in the first year and $44 billion over a five year period at a consumer cost per job saved that exceeds $70,000, about 5 times the average salary in the industry.

Bill Provisions

Major Producing Countries
(Taiwan, South Korea, and Hong Kong: each accounting for more than 10 percent of U.S. imports.)

- Imports restricted to 101 percent of level that would have obtained if there had been 6 percent growth each year from 1980 to 1984. (One percent growth for wool.)
- Amounts to a 30 percent cut for those countries.
- One percent growth thereafter.

Producing Countries
(Nine countries: each accounting for more than 1.25 percent of U.S. textile and apparel imports.)

- Imports restricted to same levels as in 1984.
- Amounts to a 0.2 percent increase due to some increase in uncovered categories.
- One percent growth thereafter.

Small Producing Countries
(Any other producing country, not including the EC, Canada, CBI countries and Mexico.)

- Imports restricted to 15 percent growth from 1984 if in a non-sensitive category and 1 percent growth otherwise.
- Amounts to a 10 percent first year increase.
- Six or one percent growth thereafter depending on sensitivity.

Footwear

- For 8 years the import share of nonrubber footwear not to exceed 60 percent of domestic consumption.

- Current market share on a volume basis is about 70 percent.

Textile and Apparel Industries: Output, employment, productivity and profitability are rising.

Output

- First five months of 1986, textile output up 11 percent and apparel output up 3 percent.

- U.S. exports of textiles and apparel are up 13 percent and 19 percent respectively in January to May 1986 compared to the same time last year.

Employment

- Employment has been falling in this industry for the entire post-war period.

- Unemployment rates in textile and apparel industries are both lower now than in 1980.
  -- textiles 8.3 percent now compared with 8.4 percent
  -- apparel 8.9 percent now compared with 11.6 percent

- Recently, in the first half of 1986, employment, measured by man-hours, is up 4 percent in the textile industry and about 1/2 percent in the apparel industry.

- Capacity utilization up to 88 percent in first quarter 1986 from 79 percent in first quarter 1985.

Productivity

- Improved labor productivity is critical to industry competitiveness, has resulted in declining employment even as output rises.

Profitability

- Profits more than doubled in the first quarter of this year, compared to the same peeriod last year.

- Return on equity rose from 6.9% in '82 to 12.0% in '83 and 11.2% in '84

Current Protection

- Tariffs averaging about 20% and quotas adding about the same again already make the industry the most protected in the U.S.

- Protecting workers who were not in the industry 25 years ago when "temporary" adjustment programs began.

Effects of the Bill

Consumers

- Retail cost to consumers in the first year would amount to $7 billion.

- Consumer cost over five years of $44 billion.

- Consumer cost per textile and apparel production job protected of $70,000.

- Not all that is lost by consumers is gained by workers. The efficiency lost due to U.S. workers competing where others have comparative advantage is a dead-weight loss to all.

Employment

- Any temporary gains in textile and apparel jobs from protection must be offset by thousands of jobs that would be lost in other areas:
  - -- workers related to the importing process (dockworkers and transportation workers)
  - -- industries for which textile and apparel is an input (retail, marketing, finance)
  - -- textile protection hurts apparel workers
  - -- workers dependent on exports lose because of retaliation and exchange rate appreciation
  - -- effects workers in all sectors of the economy due to consumer substitution.

- 10.5 million jobs gained economy wide since November 1982. Compares with an inflexible tariff and quota ridden E.C. which until very recently had not gained one net job in the same time.

- Wrong economic signals are sent, shifting labor and other resources from efficient allocation to competition with the lowest paid manufacturing workers in the rest of the world.

International

- This bill violates GATT and MFA agreements made by the U.S. threatening upcoming MFA negotiations.

- Retaliation is invited by the 12 producing countries that account for $50 billion of U.S. exports including large amounts of soybeans, wheat, cotton, tobacco, and aircraft.

86-08047

DEPARTMENT OF THE TREASURY
WASHINGTON

ASSISTANT SECRETARY

July 28, 1986

MEMORANDUM FOR SECRETARY BAKER

FROM: Michael R. Darby

SUBJECT: Arguments which link trade deficit to government deficit

As requested by you today:

- The basic argument is based on an identity which is always true by the conventions of national income accounting:

  trade deficit = private investment +

  government deficit - private saving

- If private investment less saving is a stable quantity, then the trade deficit will rise or fall as the government deficit does.

- The mechanism by which this occurs is said to be: More borrowing raises U.S. interest rates which appreciates the dollar and makes U.S. goods less competitive. (That is, the U.S. "overspent" and had to attract foreign financing.)

- Counterarguments -- on which I put substantial weight -- object that tax increases tend to lower both the government deficit and private saving by similar amounts with little net effect on the trade deficit. Only changes in government spending on goods and services are reliably shown to have the real interest rate effects envisaged in the mechanism above. An alternative explanation of high trade deficit is that U.S. again became a good place for private investment under President Reagan which forced the trade deficit up.

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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

5698

August 4, 1986

MEMORANDUM FOR BERYL W. SPRINKEL

FROM: RODNEY B. MCDANIEL BM for

SUBJECT: CEA Analysis of the President's Veto of the Textile Bill

The NSC staff concurs with the attached CEA analysis of the President's veto of the Textile Bill (Tab A).

Attachment
Tab A CEA Analysis

cc: David Chew

A

Document No. 5698

WHITE HOUSE STAFFING MEMORANDUM

DATE: 8/1/86 **ACTION/CONCURRENCE/COMMENT DUE BY:** COB 8/4/86

SUBJECT: CEA ANALYSIS OF PRESIDENT'S VETO OF TEXTILE BILL

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	☐	☐	MILLER - ADMIN.	☐	☐
REGAN	☐	✓	POINDEXTER	✓	☐
MILLER - OMB	☐	☐	RYAN	☐	☐
BALL	✓	☐	SPEAKES	☐	✓
BARBOUR	☐	☐	SPRINKEL	☐	✓
BUCHANAN	✓	☐	SVAHN	✓	☐
CHEW	☐P	✓SS	THOMAS	✓	☐
DANIELS	☐	☐	TUTTLE	☐	☐
HENKEL	☐	☐	WALLISON	✓	☐
KING	☐	☐	________	☐	☐
KINGON	✓	☐	________	☐	☐
MASENG	☐	☐	________	☐	☐

REMARKS: Please provide any comments directly to Beryl Sprinkel by close of business Monday, August 4th, with an info copy to my office. Thank you.

RESPONSE:

David L. Chew
Staff Secretary
Ext. 2702

MEMORANDUM

COUNCIL OF ECONOMIC ADVISERS

August 1, 1986

MEMORANDUM FOR DAVID CHEW

FROM: Margot Machol MEM

SUBJECT: Release of CEA's Analysis in Support of the President's Veto of The Textile and Apparel Trade Enforcement Act of 1985

The attached memo presents CEA's analysis of the Textile and Apparel Trade and Enforcement Act of 1985. It presents reasons for sustaining the President's veto of this objectionable legislation. We would like to release this memo to supporters of the President's position in the Congress. We would appreciate a quick turnaround as the House will be considering the over-ride early next week. Thank you.

SUSTAINING THE PRESIDENT'S VETO OF THE TEXTILE AND APPAREL TRADE ENFORCEMENT ACT OF 1985

Override of the President's veto of the Textile and Apparel Trade Enforcement Act would cost American consumers $44 billion over the next five years. This cost would come primarily from increasing the already high level of protection afforded to our domestic textile and apparel industries, and to a lesser extent from extending protection to our footwear and copper industries. Overall economic efficiency and growth would be diminished by shifting employment of domestic resources toward these protected industries and away from other, more productive uses. For the average $13,000 a year job that would be diverted from more productive sectors of the economy, consumers would pay an additional $70,000 per year.

Moreover, enactment of this bill over the President's veto would violate our commitments under the General Agreement on Tariffs and Trade (GATT) and the Multifiber Arrangement (MFA), and would undermine the economic and moral basis for our initiatives to open foreign markets to U.S. exports.

It would seriously damage prospects for a successful round of new trade talks that would address many issues critical to U.S. economic interests. As occurred in the recent case of restrictions against imports of cedar shakes and shingles from Canada, override of the President's veto would invite foreign retaliation against $50 billion of our exports (including large quantities of soybeans, wheat, cotton, tobacco and aircraft) by the 12 leading textile and apparel exporters. In the end, unilateral imposition of new trade barriers in textiles, apparel, footwear and copper would harm the U.S. economy and threaten the open system of international trade that has contributed importantly to the prosperity of the free world in the postwar era.

Provisions of the Bill

The three leading textile and apparel exporters (Taiwan, South Korea and Hong Kong) would be required to cut their exports to the U.S. to 30 percent below 1984 levels and to restrict subsequent export growth to no more than 1 percent per year. Nine other textile and apparel exporters (each accounting for more than 1.25 percent of U.S. imports) would be cut back to 1984 export levels, with one percent annual growth permitted thereafter. Other textile and apparel exporters (excluding the EC, Canada, Mexico and the CBI countries) would be subject to less restrictive quotas.

Imports of nonrubber footwear would be cut back about 15 percent from current levels, and the import share would then be frozen for 8 years. Important exporters of copper to the U.S. would be required to reduce exports to 1982 levels, and less important exporters to 1984 levels. These provisions relating to footwear and copper have substantial costs for consumers and for the economy, but these costs are relatively small in comparison with the effects of the provisions relating to textiles and apparel.

The U.S. Textile and Apparel Industry

For the past two decades, the textile and apparel industry has benefited from high levels of protection and on net has probably been our most heavily protected major domestic industry. The tariff rate on textile and apparel imports averages about 20 percent, versus a 3 percent average tariff rate on all imports. Quantitative restrictions on textile and apparel exports agreed to by other countries increase average protection for our domestic industry by approximately another 20 percent, for an overall average rate of protection of about 40 percent for this industry.

The present level of protection of the U.S. textile and apparel industry has very substantial costs for American consumers. Nevertheless, recognizing the special problems of workers and firms in this industry, the President has not recommended reducing current levels of protection. In his veto of the Textile and Apparel Trade Enforcement Act, the President simply opposes a costly, substantial and unjustified increase in the level of protection for this particular industry.

The facts do not indicate that the textile and apparel industry requires additional protection. As shown in the attached charts, domestic outputs of textiles and apparel have been on generally rising trends and currently are slightly above their growth trends. Hours worked in textiles and apparel have been on declining trends, but these declines in labor use reflect primarily the rapid growth of productivity in textile and apparel production. This phenomenon is apparent in many goods producing industries, including some that do not face significant foreign competition.

On the whole, the textile and apparel industry employs relatively low wage workers, but it is not the only industry that employs such workers. The American economy has created more than 10 million new jobs since 1982 in a wide variety of skill categories and has successfully integrated millions of new workers into the labor force. The high turnover rate of workers in the textile and apparel industry indicates that workers generally enjoy substantial mobility into and out of this industry.

Sudden contractions of employment in areas heavily dependent on the textile and apparel industry will create adjustment problems for affected workers, as do such employment contractions in other industries. However, the problems of particular textile and apparel producers and their employees are not uniquely the consequence of import competition. In a highly competitive industry with rapidly improving technology, less efficient enterprises inevitably tend to be crowded out by their more efficient domestic competitors.

Moreover, there is no credible evidence for the belief that maintaining additional jobs in textiles and apparel through protectionism would add a comparable amount, or indeed any significant amount, to total employment. In Western Europe, which is generally more protectionist than the United States, employment has stagnated during the past decade. In contrast, the U.S. economy over the same period has created jobs for 20 million more workers. Protectionism only diverts employment toward particular industries; for the economy as a whole, it does not create employment.

In terms of profitability, the textiles and apparel industry appears to have been doing about as well as all of manufacturing. For textile mill products (data not available for other categories) the average rate of return on equity over the last three years was 10.6 percent versus 11.1 percent for all manufacturing. Preliminary evidence indicates significant profit gains for textile mills in 1986. Further, publicly

In later years, the cost to consumers would be higher. This is because the Act allows very little of the normal increase in consumer demand to be met by increased imports. Accordingly, textile and apparel prices would rise over time, relative to the prices that would prevail without the Act. Over five years, the total cost to consumers is estimated to be $44 billion.

Some of this consumer cost would accrue as increased profits and wages of domestic firms and workers--the so-called gain of "producer surplus" from trade restraints. However, it may be of little comfort to consumers to know that part of their increased expenses have helped to increase the profits of already highly profitable firms and/or to provide employment in the textile and apparel industry of workers who otherwise would have been employed in other industries.

Moreover, much of the cost of increased protection to consumers will either be lost as a gift to foreign producers or swallowed up in reduced economic efficiency. When we force up the price we pay for imported textiles and apparel by requiring foreigners to restrict their exports, foreign producers capture the benefit of these high prices. They sell less, but they make a higher profit on each unit they still sell and avoid the cost of producing the units they no longer sell. When we induce expansion of domestic textile and apparel production through increased protection, we divert resources into this industry that could be and would be more productively employed in other industries. Consumers pay for this loss of productive efficiency through higher prices for textiles and apparel.

Finally, unilateral action to increase protection for the U.S. textile and apparel industry threatens serious damage for other U.S. industries. Such action would violate our commitments under the GATT, the MFA, and other bilateral agreements. Exporters of textiles and apparel might well feel legally and morally entitled to retaliate against U.S. exports. The likelihood of such retaliation is difficult to assess. However, it seems very likely that unilateral action to restrict further and substantially U.S. textile and apparel imports will make exporting countries less responsive to important U.S. initiatives to open foreign markets to U.S. exports of goods and services and to secure protection of intellectual property rights. Moreover, the moral basis for the Administration's efforts to promote free and fair trade would be jeopardized by enactment of a protectionist trade bill over the President's veto. Thus we may easily scuttle efforts by the U. S. to expand trade through another GATT negotiating round.

traded firms in the textile and apparel industry had strong stock market performance in 1985.

Thus, while some individual textile and apparel firms will undoubtedly experience difficulties, there is no indication that greater protection is required to forestall a general collapse of the industry. Increased protection might help some marginal firms stay in business. However, the firms that would benefit most from protection are the most efficient and already highly profitable enterprises in the textile and apparel industry.

The Cost of Protection

The restraints on exports of foreign textiles and apparel to the United States that are mandated by the Textile and Apparel Trade Enforcement Act would increase substantially the domestic price of imported textile and apparel products. Domestic producers of competing products would increase their prices, though perhaps to a somewhat lesser extent. Retail sellers of these products would add their mark-ups to the price increases of their foreign and domestic suppliers. All told, increases in the retail prices of textiles and apparel would cost consumers an estimated $7 billion in the first year of the Act.

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS

7/30/86

Sent to Herb Stein, Charlie Schultze:

Paper entitled "Textile & Apparel Trade Enforcement Act of 1985", by CEA

Graphs entitled "Apparel Output & Employment" and Textile Output & Employment"

Paper from Commerce (Office of Textiles & Apparel dated 7/21/86, entitled "U.S. Textile and Apparel Program -- Charts and Talking Points"

Commerce paper entitled "Why Textile Quota Legislation Should not be Enacted"

Commerce paper entitled "Administration Trade Policy Actions 9/23/85 - 7/23/86"

Nov. 13, 1985 Congressional Record (S15283 - S15288)

Copy of H.R. 1562, "Textile and Apparel Trade Enforcement Act of 1985"

Beryl W. Sprinkel
Chairman

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS

July 30, 1986

Herb,

Attached is additional information on the textile veto override. Presently, the House plans to attempt veto override on August 6 followed subsequently by a Senate attempt.

I would urge, if at all possible, that your statement surface prior to August 6.

BWS

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