EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS

~~Tom Woods~~

~~Mike Wuss~~

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Hold tightly.

BWS

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Beryl W. Sprinkel
Chairman

DEPARTMENT OF STATE
WASHINGTON

Dear Mr. President:

Before leaving on his Asian trip, Secretary Shultz asked me to follow up on his recent conversation with you about the "new" trade bill. Inasmuch as the trade bill will be coming to a vote in the House very soon, I would like to take this opportunity to give you our views on this matter in writing.

The Secretary and I recognize that Jim Baker and Clayton Yeutter have made a major effort to improve the bill. The current version is much better than the orginal H.R. 3. But as you have said, the real test is not if the bill has been improved, but rather if the bill is an improvement on current law. The Secretary and I believe that even without the plant closings provision, this bill is one of the worst pieces of economic legislation to come to a President's desk since Smoot-Hawley. It is 1,100 pages of procedural mayhem. It demands a veto.

We believe that the bill rejects forty years of trade liberalization and U.S. economic leadership. Its anti-competitive philosophy will plague this country for decades.

Mr. President, we believe that with this bill the Congress is trying to do to trade policy what the War Powers Act has tried on U.S. foreign policy. It attempts to rob the President of power over foreign economic policy, just as Congress has tried to tie the President's hands in the exercise of U.S. military might. It is a congressional assault on presidential power and on the national interest.

The bill is loaded with procedures that limit presidential authority, while allowing special interests to dominate the trade agenda of future administrations. It transfers to USTR the President's authority to decide what foreign trade practices are unfair and what to do about them. These matters are too important not to be decided by the President, with the advice of the Cabinet. (How do we tell Maggie Thatcher or an American CEO that the President can't resolve a trade problem; instead they will have to see the United States Trade Representative?)

The President,
The White House.

Congress is also going to force the imposition of sanctions on Toshiba despite the fact that the violation was the work of a few individuals, who have already been punished, and despite the fact that the Japanese export control system has been greatly strengthened. Prime Minister Takeshita feels strongly that we should not impose sanctions. The bill will mandate that future Presidents impose sanctions on any foreign firm or country that violates COCOM guidelines. Mr. President, COCOM is a voluntary organization based on the voluntary cooperation of the member states. If we put ourselves in the position of being judge, jury and executioner, the result will be to weaken COCOM. This would seriously undercut our largely successful efforts to control the Soviet Union's access to Western technology.

In the postwar era, Presidents have correctly dominated U.S. trade policy; they've understood that America's economic interests are best served by free and expanding trade. Only the President can balance trade decisions against other U.S. interests, including national security.

Will future U.S. Trade Representatives be by far the most important, often the only decision makers on trade policy? Will a future President have to fire a USTR in order to influence trade policy on behalf of the national interest?

The timing couldn't be worse. We believe that the bill endangers world trade just as the U.S. economy is enjoying an export-led boom. We must create more markets for U.S. exports, not give trading partners excuses to retaliate against our goods -- just as we're winning. The Toronto Summit celebrated your leadership of the world economic system.

The Europeans and Japanese are finally talking seriously in the GATT about eliminating farm subsidies and making major reforms in services and high technology. Why pull the rug out from under our trade negotiators by reverting to the discredited protectionist policies of the 1930s?

The bill would pressure us to spend another $2 billion in budget-busting farm export subsidies over three years and would undermine efforts to balance the federal budget by adding $1 billion a year in government spending over your 1989 budget.

The bill puts government into the industrial policy business, instead of letting markets make those decisions. For example, the "Competitiveness Policy Council" would get $5 million a year to comment on private sector requests for government help. Also, changes in the import relief law would require the government to negotiate industry and labor "commitments" during consideration of a Section 201 case. This involves the federal government in the details of industry--

planning, empowering faceless bureaucrats in Washington to tell U.S, firms how best to run their businesses.

Congress loves to generate studies and commissions to avoid facing real problems. H.R. 4848 creates a dozen new bureaucracies and requires 126 reports, most designed to give ammunition to special interests that want government favors. Some prime examples include:

-- A study of the effect of honey imports on the pollination role of American bees. Do we really need a pollination impact study before we can consider trade action?

-- A study of the comparative cost of growing roses in Europe. That information is probably available in dozens of European gardening magazines, if you really need to know it.

-- Congress wants us to send monthly reports, by product, on U.S. wood exports to Pacific Rim countries. Monthly data is already available, if congressional staffers would go to the effort of looking it up.

New, unneeded bureaucracies and commissions would continue to proliferate. These could include:

-- Office of Barter in Commerce. As President, you have opposed barter as being fundamentally in conflict with private-sector-oriented free trade. Congress now wants to put the government in the business of encouraging barter.

-- One of the silliest proposals calls for setting up a federal collection point for the states' collection points on what initiatives U.S. businesses are taking. The last thing we need is more bureaucrats to collect data from other bureaucrats about how working people of America are doing their jobs.

-- Establishment of the Trade and Development Program as a separate agency that would then be given $5 million of our scarce unearmarked Economic Support Funds for use as tied aid. To deal effectively with changing situations around the world, we need more, not less unencumbered aid money.

-- A formal Trade Data Advisory Committee for 13 other government departments to tell Commerce what trade data to collect. If an interested government agency has a request, all they have to do is pick up the phone and ask Commerce.

-- A Market Development Cooperator Program/Cooperator Partnership Program at Commerce will use contractors to duplicate the work of the Foreign Commercial Service to encourage exports.

Congress' solution to making our industries more competitive is to saddle them with more paperwork, instead of challenging them to make better products. The bill even authorizes the ITC to override findings by OMB under the Paperwork Reduction Act that some surveys of private business are not needed. One new agency must report on its efforts to make business aware of its existence. If U.S. business really needed another government agency, Congress wouldn't have to spend the taxpayers' money to convince them it serves a useful purpose.

Mr. President, other reports are equally unnecessary. While U.S. embassies are being closed for budgetary purposes, the bill mandates that the State Department make yet another report to Congress on economic conditions and worker rights in up to 150 foreign countries. This costly report duplicates our existing Human Rights Report and other surveys currently performed by USTR and Commerce.

This bill gets Congress so far into micro-managing the Executive Branch that it would mandate the number of personnel assigned to a specific post and what titles we must give personnel at our embassies. It mandates a minimum size for one of Congress' favorite government units (the Foreign Agricultural Service) to hide it from any budget cuts that all agencies should have to share.

Mr. President, it is a shocking sign of the times that a bill this bad is considered almost moderate. Secretary Shultz and I consider the bill to be a carefully considered attack by the Congress on the Presidency and on the national interest. I am amazed at how many people want you to hold your nose and sign it.

It is time to think of the legacy that the Reagan Administration will leave. President Hoover will be forever tarred by Smoot-Hawley. There would be no greater injustice than to have the Reagan era linked to the enactment of a similarly disastrous trade bill.

Sincerely,

John C. Whitehead
Acting Secretary

6/9/88

~~C O N F I D E N T I A L~~

DRAFT

To: The Secretary

Through: E - Mr. Wallis

From: EB - Eugene J. McAllister

Subject: A Window of Opportunity on Trade Restrictions

Summary

- Even though committed to liberal trade policies, the Administration negotiated ad hoc trade restraints on automobiles, steel, machine tools, and semiconductors. In addition, the multifiber arrangement for textiles and apprarel was made more restrictive.

- A unique window of opportunity will exist between the election and the end of this Admininistration to end these trade restrictions, leaving the new Administration with a clean slate.

  -- In each case, the industry is healthy and at least major portions of it can successfully compete with their international rivals.

  -- The decline in the dollar since 1985 has greatly improved the competitiveness of U.S.-produced goods both here and abroad.

  -- The economy as a whole continues to grow, led recently by a strong growth in export demand.

  -- The Uruguay Round mid-term review will be an appropriate context to demonstrate the committment of the United States to opening markets. Ending some of our own restrictions would help lead to greater opportunities for our export industries.

- In each case, the trade restriction was imposed or negotiated by the Administration. Legislation would not be required to end the restrictions.

- Any moves to end the special protection they now enjoy would be resisted strongly by the industries in question. Therefore, confidentiality is absolutely essential.

Conditions in the Industries

- My staff has analyzed the trade restrictions negotiated by this administration on automobiles, steel, machine tools, semiconductors, and textiles and apparel. For each of the five industries, the restrictions were negotiated during a time of growing competition from imports, and (except for textiles and apparel) extraordinary stress in the industry.

- For each of the five industries, firms have taken positive steps to adjust to long-run changes in demand and to foreign competition, taking actions such as investing in new or modernized capacity, closing obsolete facilities, changing management practices or labor relations to improve productivity, introducing new product lines, and/or developing new technology.

- In each case, demand is currently strong and the industry is enjoying a measure of financial health.

- Each of the industries is diverse, with some healthy and growing segments and some declining segments. In each case, at least some firms in the industry have demonstrated an ability to compete successfully against foreign producers, while others have been less successful.

- Continued trade restrictions are costly to consumers and to downstream industries. In each case, the restrictions are quantitative in nature, producing numerous product-specific market distortions including higher prices and even spot shortages.

- The trade restrictions are also retarding beneficial adjustments in the protected industries.

Conditions in the Economy

- The economy has grown continuously since 1982, without exessive inflation. Total employment has grown 15 percent to reach 114.2 million in the first quarter of 1988, the unemployment rate has fallen from 9.6 to 5.6 percent, and real GNP has increased by 23 percent.

- The weaker dollar has spurred exports and restrained the growth of the quantity of imports. Economic growth in Japan, the newly industrializing countries, the developing world, and to a lesser extent Europe should lead to continued strong demand for U.S. exports.

The Window of Opportunity

- The aim of policy should not be to indefinitely protect uncompetitive firms and industries, but rather to create conditions which encourage firms to improve their ability to satisfy consumers' demands, by innovating, improving quality and reducing costs, or to decline and exit if they are uncompetitive.

- The industries in question demonstate how easily "temporary" protection, originally designed to give the industry time to adjust, can become permanent. Restrictions on cotton textiles and apparel were originally negotiated in the 1950s to help the industry adjust in the aftermath of World War II, but have been repeatedly extended and expanded in coverage. The steel industry has enjoyed some form of protection for most of the last 20 years. Yet, even though the industry is now booming, it has already begun to lobby for an extension of the VRAs beyond 1989.

- Domestic and international conditions will be ripe for the President to take a leadership role in ending the restrictions before he leaves office. Economic conditions are good for the industries in question and for the nation as a whole.

- Export industries whose active support of open trade policies waned when the dollar was high and export opportunities limited now have a greater stake in market-opening policies. Import-competing industries may find it more difficult in the future to generate support for protectionist policies.

- Protectionist policies supported during times of recession and unemployment can no longer be justified as job-creating expedients. Rather, they reduce real growth and national wealth.

- Even though ending the trade restrictions can be fully justified by the benefits to the United States, this action could also be used in the Uruguay round to encourage other nations to take similar steps. The mid-term review later this year would be an ideal focus for a multilateral rollback of industry-specific trade restrictions.

EB/PAS JHBoyd June 9, 1988

6/9/88

AUTOMOBILES

BACKGROUND

Trade Restrictions Currently in Force

- Products covered: Passenger cars manufactured in Japan.
- Type: Voluntary export restraints.
- Duration: April 1, 1981 - March 31, 1985 at U.S. request; unilaterally renewed by Japan through March 31, 1989.

Policy background

- The 1979 oil crisis reduced demand for larger cars and led to record losses and layoffs by U.S. auto companies. The shift in demand to small cars where Japanese imports were strongly competitive led to concern over the level of Japanese imports. There was growing Congressional sentiment for legislated import restraints.
- The United Auto Workers and Ford had petitioned in June, 1980 for import relief under Section 201 of the 1974 Trade Act, but the International Trade Commission ruled in December that imports were not the major cause of injury to the industry. This ruling foreclosed escape-clause import relief.
- In early 1981 the Administration requested the Japanese government to limit automobile exports to the United States. The purpose of this policy was to give the industry a period of temporary import relief so that it could adjust and to forestall legislation limiting automobile imports.
- In April, 1981 the Japanese government agreed to limit its exports of automobiles to the United States to 1.68 million units for the April-March fiscal year. Japan renewed the export restraints in 1982, 1983 and 1984, increasing the export limits to 1.83 million units.
- In early 1985, the Administration announced that it would not ask for renewal of the export restraints. However, the Japanese government has unilaterally renewed the restraints each year, increasing the annual quota to 2.3 million units. The current restraint expires March 31, 1989.
- While the United States has not formally asked the Japanese government to continue the restraints beyond March, 1985, neither have we asked that they be terminated. Indeed, it is widely believed in Congress and in the industry that the

Japanese government has been informally advised that the United States would not object to their renewal.

Other trade restrictions

- In the early 1960s, the United States applied a 25 percent tariff on trucks in response to EC increase in the tariff on chicken. This "chicken war" tariff did not apply to cab and chassis units, and compact pickup trucks from Japan were imported without the cargo bed attached to escape the tariff. A change in customs definitions ended this exemption in 1980.

STATE OF THE INDUSTRY

Conditions when trade restrictions were imposed

- The 1979 oil panic led to a sudden drop in demand for large domestic cars, devastating the U.S. industry. From 1978 to 1980, sales of domestic cars fell by nearly 2.6 million units (a 28 percent drop), while import sales rose by nearly 400,000 units (a 20 percent increase). Japanese imports captured 21 percent of the smaller 1980 market, up from 12 percent two years earlier.

- The decline in domestic sales led to massive layoffs and record losses in the U.S. automotive industry. Industry employment fell by over 200,000 workers, and 1980 industry losses were nearly $3.5 billion.

- The industry found itself with a product mix unsuited to the high-fuel-cost market, and developed plans to invest tens of billions over the early 1980s to develop more fuel-efficient car lines. These plans were threatened by a Japanese car industy with a growing reputation for product quality and an estimated landed cost advantage in the U.S. market of $1,200 to $1,800, even after transportation costs and duties had been paid.

- When President Reagan took office in January, 1981, the new administration faced considerable pressure to offer relief to the auto industry, and the President had indicated during the campaign that Japan should restrain its automotive exports. At U.S. request, Japan agreed to restrain exports to the United States beginning in April, 1981, initially to no more than 1.68 million units.

- Automotive output and employment continued to fall through 1982, although industry earnings began their recovery in

1981. By the end of 1984, the economy had been growing for several years, the industry had trimmed its overhead and begun to introduce new car lines, and both employment and output had recovered. The Administration decided in early 1985 not to request renewal of the export restraints. However, Japan has since then unilaterally renewed them on an annual basis, restricting exports to 2.3 million cars.

Current conditions and recent developments

- The automotive industry, as the economy as a whole, is in a much different situation at the end of the Reagan administration than at the beginning. The industry has recovered from the 1978 oil panic and the 1981-82 recession, and has taken major steps to adjust to import competition.

- Domestic manufacturers have streamlined their operations, redesigned their products, and are enjoying healthy earnings -- $2.9 billion in the first quarter of 1988.

- Motor vehicle industry employment has also recovered, up 20 percent from its 1982 low. However, employment and output are somewhat below their 1984-1985 peak levels and substantially below the 1978 peak.

- Motor vehicle industry productivity has grown substantially over the last decade. In 1987 the industrial production index for the industry was 7 percent higher than in 1978 but total employment was 16 percent less. The BLS index of output per employee hour rose 24 percent from 1978 to 1986.

- The recovery of the automotive industry mirrors the recovery of the economy as a whole. Total employment has grown 15 percent since 1982, reaching 114.2 million in the first quarter of 1988. Over the same period, the unemployment rate fell from 9.6 to 5.6 percent.

- All major Japanese manufacturers are now or soon will be building cars in the United States. U.S. plants of Japanese companies produced 633,000 cars in 1987, about six percent of the market. Industry analysts believe that the post-1985 increase in the exchange value of the yen has made U.S.-built Japanese cars cost-competitive with cars assembled in Japan.

- Korean imports have expanded rapidly in the low end of the market, capturing over three percent of U.S. sales in 1987.

- The high yen and growing Korean competition have caused Japanese exports to fall some 60-80 thousand units short of

the 2.3 million quota limit for the year ended March 31, 1988. Nevertheless, the quota appears to restrict exports of some Japanese companies. For other companies, apparent concern about possible reductions in future quotas has caused them to accumulate U.S. inventories rather than cut exports.

Outlook

- The near term outlook for the U.S. automotive industry is good. The Department of Commerce is forecasting automobile sales several hundred thousand units above 1987 levels and continued strong light truck sales.

- Although the "Big 3" North American manufacturers have introduced redesigned product lines and streamlined their operations since 1980, they will continue to experience both competitive opportunities and competitive challenges.

  -- Falling real gasoline prices and the movement of the baby boom generation into the peak earning years should continue to increase the demand for larger, more luxurious cars, traditionally the domain of U.S. producers.

  -- Imports from industrializing countries such as Korea, Brazil, and Mexico are increasing their presence in the U.S. market, offering new competition in the lower end of the market for both Japanese and traditional North American manufacturers.

  -- The high yen is accelerating the movement of Japanese producers to larger, more powerful and more luxurious cars, intensifying competition for traditional North American producers.

- The high yen is also encouraging continued expansion of Japanese-owned production in the United States. By the early 1990s, industry analysts expect Japanese companies to be able to produce some 1.7 million units annually in the United States and another 350,000 units in Canada. The U.S. content of these vehicles should also continue to increase.

- On balance, the outlook for sales of U.S.-produced cars should continue to be strong over the foreseeable future, with some shift away from traditional North American brands toward Japanese nameplates produced here. Japanese exports to the United States will be restrained by the high value of the yen.

EFFECTS OF THE TRADE RESTRICTIONS

- Several analysts have estimated the costs of the automotive VRAs in 1983 and 1984, when they were most restrictive.
  - -- Crandall (1984) estimated the restrictions added some $1000 to the price of each Japanese import and $400 to the price of each domestic car. Estimated cost to consumers was $4.3 billion, about $160,000 per year per automotive job saved.
  - -- The Council of Economic Advisers estimated in 1985 that the restrictions added about $1200 to the price of each Japanese import and $260 to the price of each domestic small car. Estimated consumer cost was $4.1 billion, about $136,000 per automotive job saved.
- Although the restrictions helped the domestic producers in the short run, they also accelerated the movement of the Japanese producers into larger, more expensive compact and sporty cars, intensifing competition in more profitable market segments.
- The high yen and growing Korean competition have caused Japanese exports to fall some 60-80 thousand units short of the 2.3 million-unit quota limit. Nevertheless, the quota is continuing to distort the market to the detriment of U.S. consumers. Export of cars by some companies whose products are in greatest demand continue to be constrained. Other companies have accumulated U.S. inventories rather than cut exports, apparently because of concern about possible reductions in future quotas should they fail to export the full amount.

EB/PAS JHBoyd June 9, 1988

AUTOMOBILE INDUSTRY DATA

PRODUCTION, CONSUMPTION, AND TRADE
(m. pass. cars/year)

	1978	1980	1982	1984	1987
Factory sales, U.S. plants	8.49	5.84	4.70	7.03	6.49
Retail Sales	11.16	8.98	7.98	10.39	10.28
"Domestics"	9.16	6.58	5.76	7.95	7.08
(% of total mkt.)	(82.1%)	(73.3%)	(72.2%)	(76.5%)	(68.9%)
"Imports"	2.00	2.40	2.22	2.44	3.20
(% of total mkt.)	(17.9%)	(26.7%)	(27.8%)	(23.5%)	(31.1%)
Japan	1.36	1.19	1.80	1.91	21.9
(% of total mkt.)	(12.2%)	(21.3%)	(22.6%)	(18.4%)	(21.3%)
Other	0.64	0.49	0.42	0.53	1.01
(% of total mkt.)	(5.7%)	(5.5%)	(5.3%)	(5.1%)	(9.8%)
Imports	3.03	3.31	2.93	3.56	4.59
Canada	.83	.59	.70	1.07	.93
All other	2.20	2.72	2.23	2.49	3.66
Exports	.70	.61	.37	.61	.63
Canada	.54	.51	.33	.59	.56
All other	.16	.10	.04	.02	.07

Source: U.S. Department of Commerce, Survey of Current Business

EMPLOYMENT, EARNINGS AND PRODUCTIVITY
(SIC 371--Motor Vehicles and Motor Vehicle Equipment)

	1978	1980	1982	1984	1987
All Employees (thous.)	1004.9	788.8	699.3	861.7	841.5
Prod. Workers (thous.)	781.7	575.4	511.9	664.1	654.5
Output/Empl.Hr. (1977=100)	99.3	90.8	96.9	115.7	123.3*
Average Earnings ($/hr.)	8.50	9.85	11.62	12.73	13.57
(Ratio to All Mfr.)	(1.38)	(1.35)	(1.37)	(1.38)	(1.37)

* 1986 Data
Source: U.S. Department of Labor, Bureau of Labor Statistics

AUTOMOBILE INDUSTRY DATA (Continued)

PRICE INDEXES

	1978	1980	1982	1984	1987
CPI-U (1982-84 = 100)					
New Cars	75.8	88.4	97.4	102.8	114.6
All Items	65.2	82.4	96.5	103.9	113.6
Imports, Pass. Autos (1985 = 100)	--	--	90.8	96.5	122.4

Source: U.S. Department of Labor, Bureau of Labor Statistics

OTHER DATA

	1978	1980	1982	1984	1987
Industrial Production Index, Motor Vehicles and Parts (1982 = 100)	104.6	71.1	66.8	104.4	111.8

Source: Board of Governors of the Federal Reserve System.

Net Profit After Taxes, Motor Vehicles & Equipment ($ mil.)	6.21	-3.42	.73	10.58	10.59

Source: U.S. Department of Commerce, Census Bureau.

1/9/88

STEEL

BACKGROUND

Trade Restrictions Currently in Force

- Products covered: Steel mill products of carbon and certain alloy steel, including semi-finished steel, sheet and strip, bars, plates, structural shapes, and other products.

- Type: Voluntary restraint arrangements (VRAs) with 19 countries and the European Community (EC10).

- Duration: October 1, 1984 - October 1, 1985. U.S. enforcement authority subject to annual review.

Policy background

- On September 18, 1984, the President denied import relief following a Section 201 investigation. Instead, he pledged a nine-point "new policy for the steel industry,", including VRAs (termed "surge control arrangements") to be negotiated with countries whose imports had increased. Enforcement authority would be sought for both existing and new VRAs.

- Steel Import Stabilization Act (Title VII of Trade and Tariff Act of 1984) grants President authority to enforce the VRAs, effective October 1, 1984. Enforcement authority expires automatically on each anniversary of the Act unless the President determines that the industry has reinvested its cash flow from steel operations to modernize operations and that certain other conditions have been met.

- The enforcement authority was explicitly designed to support a limited period of import relief during which the industry would modernize. The stated intent of the law is to "make the continuation of these [enforcement] powers subject to the condition that the steel industry undertake a comprehensive modernization of its plant and equipment."

Other trade restrictions

- 1969-74 - VRAs with Japan and EC, steel mill products.
- 1976-79 - Orderly Marketing Agreement with Japan, specialty steel.
- 1978-82 - Trigger Price Mechanism.
- 1982-85 - VRA with EC, carbon steel (extended by current VRA through 1989).
- 1983-89 - Temporary duty increases and quotas on specialty steel products (section 201 case).

STATE OF THE INDUSTRY

Conditions when trade restrictions were imposed

- The 1981-1982 recession was especially severe for the steel industry. From the 1979 peak to the 1982 trough, steel demand fell 34 percent, leading to a 39 percent decline in domestic shipments and a 35 percent decline in production worker employment. Raw steel capacity utilization fell from 88 percent to 48 percent. Both imports and exports fell by about 1 million tons over this period.

- Steel demand grew with the economic recovery, leading to increased domestic production and employment by 1984, as well as substantial reductions (but not the elimination) in the losses being experienced by the industry. American Iron and Steel Institute (AISI) data indicate that large steel producers lost $3.2 billion in 1982, $2.6 billion in 1983 and $0.2 billion in 1984.

- Despite the growth in demand and domestic production, the strong dollar had led to even faster import growth and continued export decline. 1984 import penetration reached over 26 percent, and domestic producers were under severe price pressure from imports.

- The growing share of mini-mills, smaller scale operations which melted scrap in electric furnaces to produce less sophisticated products, continued to increase their market share, putting additional pressure on the large integrated producers.

Current conditions and recent developments

- The domestic industry has adjusted to lower demand for its products by reducing capacity and employment.

  -- Large integrated steel producers have closed a number of less-efficient plants, while mini-mills have continued to expand their capacity, moving into more sophisticated product lines. Overall raw steel capacity fell 28 percent between 1979 and 1987; capacity of the integrated mills fell about 38 percent.

  -- Steel industry employment fell by nearly 300,000 workers to less than half the 1979 level.

-- Productivity, measured by output per worker hour, increased by one-third between 1979 and 1986.

o Steel prices have risen substantially in the last two years.

-- The weaker dollar and strong worldwide steel demand has led to higher import prices beginning in 1986, particularly for steel from Japan and Europe. The BLS steel import price index rose some 20 percent between the first quarter of 1987 and the first quarter of 1988.

-- Domestic prices have also risen since 1985. Although the BLS Producer Price Index for steel, which is based primarily on list prices, has not greatly diverged from the PPI for all durable goods, actual transactions prices in the spot market have risen substantially. Previous deep discounts in the spot market, which had reached over 30 percent in 1985, have largely been eliminated.

o Capacity utilization as measured by the American Iron and Steel Institute averaged over 90 percent for the first quarter of 1988. Independent estimates place effective capacity somewhat lower, implying that the industry is operating virtually at capacity. By February, 1988, the authoritative Paine Webber World Steel Intelligence newsletter was reporting that orders were up 23% over a year earlier and that "the companies are fully booked and are restricting their order intake."

o Nor is the steel boom localized to the U.S. Paine Webber estimates indicate less than 35 million metric tons of "effective" excess capacity worldwide.

o AISI data for the first nine months of 1988 indicate net earnings of $1.1 billion, 3.7 percent of industry sales.

Outlook

o The industry crisis which led to import restrictions has passed. Demand has increased and the industry is booming worldwide. The weak dollar has greatly improved the cost-competitiveness of U.S. producers, especially against European and Japanese producers.

o For the long term, market forces will probably lead to further reductions in the capacity of the large integrated steel makers.

-- Demand for steel will continue to fall relative to GNP, due to development of substitute materials and shift of economic activity to industries which use less steel per unit of output and to service industries.

-- The U.S. has lost comparative advantage in steel to the more advanced developing countries, first to Japan in the late 1950s and early 1960s, more recently to countries such as Korea and Brazil. Traditional steel making, despite its large scale and massive investment, is labor-intensive; labor's share of value added is some 20 percent higher than the manufacturing average. Technology is not advancing rapidly and transport costs for raw materials and steel products are not large relative to labor costs.

-- Mini-mills, which have expanded their share of U.S. raw steel capacity from about 5 percent in the late 1960s to 22 percent today, will continue to grow at the expense of the integrated mills. In the past they have specialized in less sophisticated product lines, but have been developing the technology to move into more sophisticated products. Compared to integrated producers, mini-mills have lower hourly labor costs and lower metallic input costs. They also have higher (and more rapidly growing) labor productivity than integrated producers making the same products, reflecting more rapid rates of technological advance and replacement or modernization of their technology, as well as continual operational improvements. They were cost-competitive with imports even in the high-dollar early 1980s.

o Policies which seek to counteract these market forces and to preserve obsolete and inefficient steel capacity would lead either to higher costs for steel consuming industries and higher prices for steel-containing products produced in the United States (if imports are restricted in the future) or to costs to the taxpayer (if direct subsidies are provided).

EFFECTS OF THE TRADE RESTRICTIONS

o During 1984-1985, the VRAs were a major factor in keeping U.S. prices of steel above world prices.

-- The major steel exporters were able to realize a higher return on shipments to the U.S. than to other

markets. This spread reached a peak of $100 per metric ton in 1985, falling to $25 by the end of 1987.

-- Higher prices for steel exacerbated the trade problems faced by major steel using industries, including automobiles and industrial machinery. Costs of other steel users were increased, adversely affecting consumers.

-- Tarr (1987) has estimated that the export restrictions on Korean steel alone cost U.S. and EC consumers some $478 million dollars per year in 1984.

o Since 1986, total U.S. imports from Arrangement countries have fallen as the weaker dollar has caused the restraints not to be binding on the EC and Japan. Nevertheless, the VRAs have prevented developing countries, which have much lower production costs, from capturing market share from Japanese and European steel makers.

-- Japanese and European steel makers are continuing to export to the U.S. despite lower prices here than in their home market and strong demand worldwide. Industry observers believe that they are seeking to maintain a share of the U.S. market and thus protect their claim to future quotas in the expectation that import restrictions will probably continue beyond 1989.

-- Steel makers in industrializing countries such as Korea and Brazil are believed to be cost-competitive in the U.S. market at current exchange rates, but the VRAs remove incentives in the short run to expand capacity to serve this market.

o The VRAs have helped the integrated producers relative to the mini-mills. The restraints have affected most the more sophisticated products produced by the integrated mills, whereas the newer countries which are not subject to restraints have been supplying less sophisticated products in competition with the minis.

o In a recent Brooking Institution study, Donald Barnett and Robert Crandall argue that the need for political support for import relief makes it difficult for the steel producers to close facilities, leading them to dissipate their capital to keep a number of obsolete facilities in production rather than concentrating investment on the most viable facilities.

o Despite its costs, U.S. policy toward the steel industry has been less costly to taxpayers and to efficient steel

producers than that of the EC. In addition to import restraints, the Davignon plan has subsidized less efficient mills and applied production quotas, disadvantaging mini-mills as well as the more efficient integrated producers. In contrast, U.S. policy has allowed market forces to close the least efficient mills.

- Product-specific import controls have led to very tight markets for some products. Indeed, some domestic steel producers with excess rolling mill capacity have petitioned for quota exemptions on semifinished steel. The west coast market, where steel production is limited by environmental regulation and high electricity costs and where overland transportation costs from steelmaking regions are high, has been differentially affected by the import restraints.

- National security arguments for protecting the steel industry are weak. Domestic supply continues to be dominant. Steel import suppliers are well dispersed geographically and politically. Much domestic steel consumption (e.g., autos, appliances) can be postponed in times of crisis. Rolling mill capacity exceeds raw steel capacity, and one study has estimated that it would be more economic to stockpile semifinished steel than to maintain uneconomic raw steel capacity for an emergency.

EB/PAS JHBoyd June 9, 1988

STEEL INDUSTRY DATA

PRODUCTION, CONSUMPTION, AND TRADE
(m. tons/year)

	1979	1982	1984	1987	88:Q1#
Raw Steel Production	136.3	74.6	92.5	88.5	100.6
Raw Steel Capacity	155.3	154.1	135.3	112.1	111.6
Capacity Utilization	87.8%	48.4%	68.4%	78.9%	90.1%
Steel Mill Products:					
Apparent Consumption	115.0	76.4	98.9	95.8	105.1
Domestic Shipments	100.3	61.6	73.7	76.5	84.0
Exports	2.8	1.8	1.0	1.1	1.2
% of Domestic Shipments	2.8%	3.0%	1.3%	1.5%	1.4%
Imports	17.5	16.7	26.2	20.4	22.3
% of Apparent Consumption	15.2%	21.8%	26.4%	21.3%	21.2%

#Annual Rate, not seasonally adjusted.

EMPLOYMENT
(SIC 331 - Blast Furnace and Basic Steel Products)

	1979	1982	1984	1987	88:Q1#
All Employees (thous)	570.5	396.2	334.1	274.6	285.8
Production Workers	451.3	293.9	256.8	207.3	219.1
Ave.Earn. ($/hr.)	10.41	13.35	12.98	13.84	13.96
Ratio to all mfr.	1.55	1.57	1.41	1.40	1.41
Output/Empl.Hr. (1977=100)	106.9	90.9	131.3	141.9*	n/a

*1986 data.

PRICE INDEXES
(1982 = 100)

	1979	1982	1984	1987	88:Q1#
PPI Steel (SIC 331)	81.7	100.0	104.7	102.4	107.5
PPI Sheet & Strip	81.3	100.0	109.9	110.7	115.2
PPI Bars	81.7	100.0	101.6	97.0	106.0
Iron and Steel Imports	89.3	100.0	97.7	103.6	120.0
PPI - Total Durable Goods	81.3	100.0	105.2	109.9	112.9

Source: U.S. Department of Labor, Bureau of Labor Statistics

STEEL INDUSTRY DATA (CONTINUED)

OTHER INDICATORS

	1979	1982	1984	1987
Industrial Production Index, Total Iron and Steel (1982 = 100)	108.0	57.5	73.5	70.8

Source: Board of Governors of the Federal Reserve System.

Net Profit After Taxes, Primary Iron and Steel ($ bil.)	2.19	-3.71	-0.38	n/a

Source: U.S. Department of Commerce, Census Bureau.

CHANGING COMPOSITION OF U.S. IMPORTS
(million tons per year)

	1985	1987	Change
Total Imports	24.3	20.4	-15.8%
Arrangement Countries	19.8	14.1	-28.7%
Japan	6.0	4.3	-27.8%
EC	7.0	5.3	-24.4%
Other	6.9	4.5	-34.0%
Non-Arrangement Countries	4.4	6.3	+41.4%
Canada	2.9	3.7	+28.0%
Other	1.6	2.6	+65.7%

Source: U.S. Department of Commerce, Census Bureau

SEMICONDUCTORS

BACKGROUND

Trade Restrictions Currently in Force

- Products covered: Certain semiconductor products from Japan, including certain memory products, microprocessors, and other integrated circuits.

- Type: (1) Antidumping duties on 64K dynamic random access memories (DRAMS); (2) Suspension agreements between the U.S. Department of Commerce and Japanese producers of erasable programmable read-only memories (EPROMs) and 356K and larger DRAMs, in which the producers agreed to cease selling the covered products in the United States at prices below cost and Commerce agreed to suspend antidumping cases on these products; (3) the Semiconductor Arrangement on certain other semiconductors, in which the Japanese government agreed to halt exports of the covered products to the United States and to other countries at prices below cost and to improve access of U.S. semiconductor manufacturers to the Japanese market; (4) sanctions (100 percent tariffs) on several Japanese export products following a Presidential determination of noncompliance with parts of the Arrangement.

- Duration of Semiconductor Arrangement: September 2, 1986 - July 31, 1991.

Policy Background

- In June, 1985 the U.S. Semiconductor Industry Association filed a Section 301 petition alleging that Japan was restricting access to its semiconductor market. Later in the year, three antidumping investigations were initiated by U.S. firms and the Department of Commerce, covering EPROMs, 64K DRAMs, and 256K and larger DRAMs.

- Commerce determined that 64K DRAMs were being dumped and countervailing duties were assessed. To head off dumping findings in the other cases and an unfair-trade finding in the 301 investigation, the U.S. and Japanese governments negotiated the Semiconductor Arrangement. Suspension agreements on EPROMs and 256K and larger DRAMs were negotiated in connection with the Semiconductor Arrangement and are mentioned in it.

- After the arrangement was signed, Japanese firms raised their prices on exports to the United States, but low-priced exports to third-country markets continued to be a problem, due to the plentiful supply of inexpensive chips in Japan. Low Japanese prices also inhibited the contemplated increase in U.S. exports to Japan, and U.S. firms' market share in Japan failed to increase as envisioned in the Arrangement.

- Sanctions were imposed on April 17, 1987 following a Presidential determination that third-country dumping was not adequately being controlled by the Japanese and that there had been insufficient growth in the U.S. share of the Japanese semiconductor market. 100-percent tariffs on $300 million of Japanese exports to the U.S. were imposed, including 18- through 20-inch television sets, portable microcomputers, and three types of power hand tools.

- On June 8, 1987 the President determined that compliance with the third-country dumping provisions had improved and ordered that the tariff sanctions be adjusted. Sanctions against 20-inch televisions, comprising $51 million of Japanese exports, were removed.

Other Trade Restrictions

- None.

STATE OF THE INDUSTRY

Conditions when Trade Restrictions Were Imposed

- When trade restrictions were imposed, the semiconductor industry was suffering from a drastic worldwide decline in the growth of demand. Capacity expansions here and abroad, which must be undertaken with long lead times, proved to be greatly in excess of actual demand.

  -- From January, 1977 to September, 1984, semiconductor output (as measured by the Federal Reserve Board's industrial production index) increased at an average compound annual rate of 17 percent. Over the last two years of that period (October, 1982 to September, 1984), the growth rate was 28 percent per year.

  -- Then, demand for semiconductors unexpectedly dropped drastically. U.S. semiconductor output dropped 19 percent between September, 1984 and November, 1985, and then remained roughly constant until April, 1987.

- Capacity utilization declined from a peak of 93.5 percent in July, 1984 to only 64.1 percent in August, 1986, just before the Semiconductor Arrangement was signed. A glut of chips on the market caused prices to drop and losses for the industry.

- World semiconductor demand and prices followed similar patterns.

-- Worldwide capacity utilization dropped from just under 95 percent in 1984 to a little over 60 percent in 1985.

-- However, the U.S. industry was hit harder than the Japanese industry because, at the time, the dollar was at extremely high levels relative to the yen.

Current Conditions and Recent Developments

o In April, 1987 U.S. semiconductor output growth resumed, rising 15 percent through April, 1988. Over the same period, U.S. capacity utilization increased from 63.0 percent to 70.3 percent. The U.S. semiconductor industry has benefited from a worldwide growth in demand relative to capacity, the weaker dollar, and the restriction on the Japanese industry imposed by the Semiconductor Arrangement.

o Both U.S. and Japanese semiconductor makers have experienced difficulty in penetrating each other's markets. U.S. companies' merchant sales (i.e., excluding captive production) accounted for 12 percent of total Japanese merchant sales in 1985 and 8 percent of total consumption, while Japanese merchant sales in the United States were 13 percent of total U.S. merchant sales and 8 percent of total consumption.

Outlook

o Over the long term, U.S. semiconductor demand and production should continue to grow rapidly. Commerce expects U.S. shipments of semiconductor devices to increase at an average annual rate of 12 percent through 1992. However, this growth will not be steady, but will be characterized by variability around the trend as in the past.

o The U.S. industry has a comparative advantage in design-intensive and specialized chips such as microprocessors, while the Japanese industry has a comparative advantage in commodity memory chips, there their production skills are relatively more important. Industry analysts expect the U.S. and Japanese industries to maintain their respective leads in these two classes of chips.

EFFECTS OF THE TRADE RESTRICTIONS

o Problems have arisen from the fact that the Semiconductor Arrangement attempted to cure a symptom (dumping) without attacking its cause (excess capacity in the industry).

-- Cessation of dumping in the United States resulted in even greater excess supply for the rest of the world, putting even more downward pressure on prices. Initial Japanese government efforts to control dumping in third countries were unsuccessful, resulting in low-priced grey-market exports to the United States and in U.S. sanctions against Japan.

-- After third-country dumping was brought under control, excess supply remained and was exacerbated within Japan itself. These low prices made the achievement of greater U.S. market share there (as envisioned in the Arrangement) difficult.

o Japan finally controlled dumping by restricting supply through government coordination. The resulting shortages and high prices have harmed U.S. users (e.g. the computer industry), putting them at a competitive disadvantage relative to IBM and AT&T, who make their own semiconductor chips and are therefore not harmed by the market shortages and high prices.

o The tariff sanctions imposed on other Japanese exports to improve compliance with the Semiconductor Arrangement have harmed U.S. consumers, forcing them to pay higher prices.

EB/PAS BArnold/JHBoyd July 14, 1988

SEIMCONDUCTOR INDUSTRY DATA

PRODUCTION, CONSUMPTION, AND TRADE
(mil. $/year exc. as indicated)

	1980	1982	1984	1986	1987
Value of product shipments ($ current)	9,455	11,215	17,819	16,016*	18,089*
Value of product shipments ($ 1982)	6,003	11,215	19,755	29,714*	35,348*
Industrial production index (1977=100)	178.1	194.2	297.3	251.5	262.7
Capacity utilization	87.7%	76.6%	90.7%	64.4%	65.2%
Value of imports	3,279	4,165	7,655	5,994	6,833*
Value of exports	3,422	3,791	5,318	4,856	5,827*

Source: U.S. Department of Commerce, Bureau of the Census and Board of Governors of the Fedeal Reserve System.
* Estimated by U.S. Department of Commerce, International Trade Administration, U.S. Industrial Outlook, 1988

EMPLOYMENT

(SIC 3674 - Semiconductors and Related Devices)

Total employment (000)	161	167	192	183	181
Prod. workers (000)	87.3	81.3	96.1	84.7	87.4
Average Earnings ($/hr)	6.90	8.51	9.85	10.91	11.75

Source: U.S. Department of Labor, Bureau of Labor Statistics

PRICE INDEXES

Shipments price index (1982=100)	161.2	100.0	90.0	54.2	51.5

Source: U.S. Department of Labor, Bureau of Labor Statistics

MACHINE TOOLS

BACKGROUND

Trade Restrictions Currently in Force

- Products covered: Six categories of metal-cutting and metal-forming machine tools are covered, including lathes (numerically controlled and manual), punching and shearing machines (numerically controlled and manual), machining centers, and milling machines.

- Type: Voluntary restraint agreements (VRAs) with Japan and Taiwan.

- Duration: Five years beginning January 1987, with a joint review after three years.

Policy Background

- In March 1983, the National Machine Tool Builders' Association petitioned for import relief on national security grounds under Section 232 of the Trade Expansion Act of 1962.

- After three years of internal debate, the Administration announced in May 1986 that it would ask Japan, Taiwan, West Germany, and Switzerland to voluntarily restrict their exports of machine tools. While the decision to seek import controls was termed necessary for national security, there was not a formal finding under Section 232.

- VRAs were negotiated with Japan and Taiwan. Although West Germany and Switerland did not agree to VRAs, the Administration urged them to maintain exports at specified levels and threatened unilateral action if those levels are breached.

STATE OF THE INDUSTRY

Conditions when trade restrictions were imposed

- The U.S. machine tool industry has been on a roller coaster ride during the past 10 years. A surge in orders from the auto companies (retooling to make smaller cars), commercial aircraft manufacturers, and makers of farm and oilfield machinery boosted U.S. production to a record $5.1 billion in 1981.

- A huge backlog of unfilled orders, which reached $5.5 billion in 1980, helped insulate the industry from the 1981-82 recession. With the decline in new orders, however, production fell to only $2.1 billion in 1983.

- A second blow to domestic producers was the continued high level of imports which did not drop off sharply as the order backlog of domestic firms was whittled down and lead times were reduced to acceptable levels. Imports accounted for 33 percent of the U.S. machine tool market in 1983.

- The beneficial impact of the economic expansion beginning in 1982 was tempered by the continued rise in imports, which accounted for 47 percent of the domestic market in 1986.

Current conditions

- Sluggish growth in investment contributed to a decline in domestic production and consumption of machine tools in 1987.

- Imports also declined about 13 percent last year, reducing their market share to under 47 percent. Imports from Japan and Taiwan (which are constrained by VRAs), though, declined less than imports from other countries.

Outlook

- The outlook appears brighter for the machine tool industry, which should benefit from the surge in U.S. manufactured exports. New orders in both January and February of this year approached $300 million, substantially higher than the $175 million monthly average recorded in 1987.

- Cost-cutting efforts and increased labor productivity should boost machine tool industry profits, which have been almost nonexistent during the past five years. The number of production workers in the machine tool industry has fallen more than 40 percent during the past seven years. In addition, many producers have made efforts to diversify.

- The domestic industry should continue to benefit greatly from the appreciation of the Japanese yen and German mark against the dollar. It will, though, face increasing competition from foreign firms that are building or acquiring production facilities in the United States. Japanese firms have opened or acquired eight machine tool plants in the United States since 1986.

TABLE 1: PRODUCTION, CONSUMPTION, AND TRADE
(in millions of dollars)

	1977	1980	1983	1986	1987
Shipments	$2,453	$4,812	$2,145	$2,748	$2,551
Exports	452	598	302	456	505
Imports	398	1,254	887	2,044	1,781
Trade Balance	54	-656	-585	-1,588	-1,276
Apparent Consumption	2,400	5,468	2,730	4,335	3,827
Import Penetration	16.6%	22.9%	32.5%	47.1%	46.5%

TABLE 2: EMPLOYMENT AND PRODUCTIVITY
(thousand workers)

All Employees	88.5	108.0	69.1	69.4	64.6
Production Workers	57.3	71.7	39.8	43.3	40.6
Productivity (1982=100)	113.0	111.6	94.4	107.6	N.A.

TABLE 3: PRODUCER PRICE INDECES
(1982=100)

Machine Tools	56.4	85.0	102.4	109.5	111.7
Total Durable Goods	67.4	90.1	102.8	107.5	109.9

TABLE 4: U.S. IMPORTS BY COUNTRY

Country	Percent Change 1986-87	Share of U.S. Imports, 1986	Share of U.S. Imports, 1987
Total Imports	-12.9%	100.0%	100.0%
VRA Countries	-8.5	56.1	58.9
Japan	-10.1	50.8	52.4
Taiwan	5.9	5.3	6.4
Non-VRA Countries	-18.4	43.9	41.1
West Germany	-13.2	16.7	16.7
Switzerland	-6.9	5.5	5.8
Other	-25.2	21.8	18.7

TEXTILES AND APPAREL INDUSTRIES

BACKGROUND

Trade Restrictions Currently in Force

- Products covered: Natural and synthetic textiles and apparel
- Type: Quota restraints via Multi-Fiber Arrangement and subsequent renewals, 1977 to 1986. US tariff protection averaging an estimated 25 percent.
- Duration: Industry systematically protected since the 1930's: MFA-III (1983) instituted quota call procedures.

Policy Background

- The textiles and apparel industries have received comprehensive and persistent protection in the US since the late 1950's, the original rationale being that import protection permitted time for the US industries to adjust to new postwar international competition.
- The Multi-Fiber Arrangement (MFA), renewed three times since its 1974 inception, and most recently in July 1986, exemplifies this durability and provides the umbrella under which US textiles and apparel imports from LDC's are limited by quota.
- Under the second renewal of the MFA in 1982 (MFA-III, lasting from 1983-86), the Administration attempted to curtail a perceived surge in textile and apparel imports via Department of Commerce enforcement of a set of "call" procedures, employed with accelerating frequency:

  -- In 1981, the call procedure was used 18 times, resulting in 14 specific quotas; in 1982, 38 calls, 23 new quotas; in 1984, 109 calls and 97 additional quotas.

  -- At the conclusion of MFA II in 1982, the US had bilateral agreements with 22 exporting countries; by 1986, the US had negotiated 650 separate quotas with 41 exporting countries.

  -- In the case of principal suppliers such as Taiwan and Hong Kong, the US had succeeded in controlling 90 to 95 percent of textile and apparel exports.

Other Trade Restrictions

- Long-Term Arrangement Regarding Textiles (LTA), 1962

STATE OF THE INDUSTRY

Conditions when trade restrictions were imposed

- Explosive export growth from Korea, Taiwan and Hong Kong in the early 1960's threatened traditionally labor-intensive domestic apparel and textile manufacturing.

  -- Between 1961 and 1972, annual growth in combined imports was 16 percent; by 1977-81, annual growth has declined to 2 percent

- The apparel sector (in which further mechanization is inherently more difficult) has experienced far more pressure from labor-surplus importers than has the textile sector.

- The textile sector import penetration ratios stayed at 5 to 6 percent (in value terms) from 1960 through 1982, but in the apparel sector, the ratio has risen consisently from 5 percent in the early 1960's to more than 20 percent in the early 1980's.

- The call mechanism, dating from December 1983, presumes a market disruption has occured if:

  (1) global imports of a specific category have grown by 30 percent under the agreement, OR when the ratio of imports to domestic production exceeds 20 percent, AND

  (2) imports from a particular supplier country equal 1 percent of U.S. production in that category.

Current Conditions and Recent Developments

- Cumulative decline in employment in the two sectors from their combined 1973 peak of 2.4 million through 1986 has been 24 percent, or the disappearance of 580,000 jobs.

- Still, current apparel and textile profitability exceeds that of total US manufacturing, and capacity utilization has risen to nearly 90 percent in 1987.

- The surge in imports in the 1980's is attributable, in addition to the high international value of the dollar, to increase in the share of apparel imports in product categories not covered by the MFA.

  -- The 1986 MFA adds silk, ramie and linen to the list of controlled products, which could be expected to restrain import growth from LDC's, while the decline in the value of the dollar since 1985 should restrain the pace import growth from industrial countries.

- Japan, although a signatory to the MFA, chooses not to maintain textile quotas, although the MFA so permits.

TEXTILE AND APPAREL INDUSTRY DATA

	1979	1982	1984	1986
PRODUCTION (VALUE $82 MIL)				
TEXTILES	51265	44916	50065	49210
APPAREL	45330	46681	49196	49548
TOTAL	96595	91597	99261	98758
TRADE:				
EXPORTS ($82 MILL)				
TEXTILES	2561	1766	1476	1660
APPAREL	1693	1236	999	1044
TOTAL	4244	3002	2475	2704
IMPORTS ($82 MILL)				
TEXTILES	2205	2225	3390	4309
APPAREL	7163	8516	13632	17035
TOTAL	9368	10741	17022	21344
TRADE BALANCE	<5124>	<7739>	<14547>	<18640>
APPARENT CONSUMPTION	104870	99336	113947	117398
IMPORT PENETRATION (ADJ)	10.8%	13.2%	18.6%	22.0%

	1979	1982	1984	1986
EMPLOYMENT (000)				
TEXTILES	842.3	717.4	710.6	668.9
APPAREL	1306.0	1189.0	1152.0	1133.0
TOTAL	2148.3	1906.4	1862.6	1801.9
PRODUCTIVITY (1972 = 100)				
TEXTILES	124.5	129.4	143.2	152.3 (1985)
APPAREL	112.1	127.4	124.1	124.7 (1985)
PRICES				
DEFLATOR (1982 = 100)				
TEXTILES	83.2	100.0	104.4	105.5
APPAREL	82.4	100.0	102.7	107.6
COMPOSITION OF US IMPORTS				
TEXTILES				
OECD		49.2		
NON-OECD		50.8		
APPAREL				
OECD		13.2		
NON-OECD		86.8		