# WHY A DEPARTMENT OF TRADE REMAINS A BAD IDEA

The Reagan Administration seems bent on resurrecting an idea that died a deserved death during the last session of Congress: creation of a new cabinet-level Department of International Trade and Industry (DITI). Its proponents claim that DITI would make the U.S. more competitive in world markets. In fact, DITI would deal a double blow to the U.S. consumer, first by raiding the Treasury for costly subsidies to exporters and then by fostering trade protectionism that will hike the prices Americans pay for goods.

DITI is to be created by fusing the trade functions of the Department of Commerce with those of the Office of the U.S. Trade Representative. This, it is said, would eliminate redundancy and sometime contradictory voices on trade matters, and create a bureau better able to expand U.S. exports and to reduce overseas trade barriers to U.S. goods and services. Some see DITI as the U.S. answer to Japan's Ministry of International Trade and Industry (MITI), alleged (incorrectly) to have been a major factor in Japan's stunning economic success.

If DITI were created, however, its results would likely be the opposite of those promised.

First, export promotion in a DITI probably would mean expanded programs of costly direct subsidies or loan and credit guarantees to U.S. exporters. Such subsidies are simply transfer payments, from the pockets of individual and corporate U.S. taxpayers into the coffers of U.S. exporters fortunate enough to qualify. Such government measures divert funds from economically more worthwhile domestic enterprises, leading to a net loss of jobs and national income.

Second, a DITI would be more susceptible to protectionist pressure from U.S. special interest groups than are existing agencies. Career officials in bureaus created to help special groups or economic sectors tend to accommodate these groups and sectors with little regard for the effects on the economy as a whole. Already Commerce Department officials often succumb to protectionist pressure from U.S. industries facing competition from foreign goods. But now, at least, there is a healthy tension between the Commerce Department and the U.S. Trade Representative's Office, with the latter being less susceptible to special interest pressure. A merger would simply eliminate this tension, meaning local industry pressures would no longer be checked as effectively by the national interest. DITI, in short, is almost certain to become a Department of Protectionism.

Third, a DITI would not necessarily do a better job than existing agencies in reducing overseas trade barriers to U.S. exports. The U.S. Trade Representative's Office, with its independence, lean staff, and existence within the Executive Office of the President enjoys the kind of flexibility that probably would be lost in a new trade department.

Finally, those who envision a U.S. DITI as an answer to Japan's MITI misunderstand the dynamics and history of Japan's prosperity. Some believe that an "industrial policy" such as MITI's, targeting and promoting various industries, would help the U.S. economy in general and exports in particular. But MITI has a very mixed track record. In the early 1950s, for instance, it refused to help Sony, believing there to be little future for the Japanese electronic industry. In the 1960s, MITI attempted to force a merger of Japanese auto companies and to limit the models produced; Japanese auto makers wisely resisted this pressure and went on to prosper. And MITI, meanwhile, has devoted most of its funds to supporting noncompetitive industries such as shipbuilding, petrochemicals, and agriculture. The most successful Japanese export industries, such as autos and electronics, receive little state support. The real lesson learned from MITI is that a U.S. version also would likely drain off taxpayer dollars to support noncompetitive industries, while successful firms made it in spite of such a department.

Many advocates of a U.S. Department of International Trade and Industry no doubt sincerely believe that it would make it easier to promote free trade. But history and the experience of other nations teach that a DITI would make it easier for trade to be restricted in favor of special interest groups. Such increased protectionism is not in the interest of the U.S. economy, workers, or consumers. Protectionism means higher prices for consumers and increased unemployment in the economy as a whole for the sake of extra jobs in the privileged, protected industries. The Reagan Administration should let the idea of DITI rest in peace, as it has since last year, and not attempt to resuscitate it.

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For further reading:

David R. Henderson, "The Myth of MITI," Fortune, August 8, 1983.
Katsuro Sakoh, "Industrial Policy: The Supermyth of Japan's Super Success," Heritage Foundation Asian Studies Center Backgrounder No. 3, July 13, 1983.
Benjamin Zycher, "A U.S. Department of Trade--Or Protection," Heritage Foundation Backgrounder No. 312, December 9, 1983.