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## 36 WAYS TO NARROW THE U.S. TRADE DEFICIT

### INTRODUCTION

The prospect of a \$150 billion trade deficit in 1985 has caused U.S. Congressmen and Senators to introduce a record number of bills to restrict imports into the U.S. This "solution" would be far worse than the alleged illness. Import restrictions would add billions of dollars to consumer prices. Further, they would create net unemployment and slow the U.S. economy.

A better approach to narrowing the trade gap would be to promote more U.S. exports. This would avoid the adverse effects of trade restrictions, promote a net growth in employment, and contribute to an overall rise in the GNP.

The Reagan Administration is currently seeking to open foreign markets to more American goods and services. These efforts should continue. Yet there is much that Congress and the Administration could do unilaterally to further U.S. exports. There now are, for example, U.S. laws and policies that effectively prohibit the export of various U.S. goods. Other policies hamstring or actually harm U.S. businesses, making them less able to compete with foreign firms. This not only hinders U.S. exports but can so cripple U.S. companies that they lose domestic sales to foreign imports, further exacerbating the trade deficit. Many U.S. macroeconomic policies harm the economy in general and thus dampen industrial innovations, entrepreneurial efforts, and efficiency improvements, all of which make American companies less competitive and less likely to export. Changes in such policies would go a long way to easing trade tensions by promoting U.S. exports.

The following are 36 ways to narrow the trade gap by boosting U.S. exports:

## REMOVE U.S. EXPORT RESTRICTIONS

1) Allow U.S. companies to sell overseas products that are approved by foreign countries but not approved by the U.S. Food and Drug Administration (FDA).

The FDA recently has moved beyond regulating products sold in the U.S. It now seeks to prevent U.S. drug companies from exporting products approved by foreign countries for their own markets but not approved by the U.S. for its market. This goes beyond the scope of the FDA's mandate to protect the American public. It imperialistically attempts to impose U.S. product standards on other countries. This cuts U.S. exports and puts U.S. companies at a competitive disadvantage. To evade this ban, U.S. companies set up operations overseas, causing a loss of U.S. jobs. Only too late does the FDA sometimes approve such products. The FDA should not be allowed to interfere with the production and export of goods acceptable to foreign countries.<sup>1</sup>

2) Review Consumer Product Safety Commission standards and those of other government agencies that may adversely affect U.S. exports.

Various product safety and quality standards that apply to goods sold in America might not be required by foreign governments for goods sold in their markets. When such standards add to the costs of U.S. goods, as they typically do, exports are discouraged. A review of such standards is needed. Exported items must be exempted when appropriate.

3) Allow the export of raw timber harvested on public lands.

Alleging a timber shortage, various special interest groups in 1968 were able to prod Congress to ban the export of raw cut timber from public lands. These lands contain well over half of the U.S. timber stock. Further, a company owning private forests is not allowed to replace its own logs which it exports overseas with logs purchased from public lands. There is in fact no timber shortage. The U.S. has more forest land today than at the turn of the century. Lifting the prohibition on exports of timber harvested on public lands could generate \$1 billion in export sales to Japan.<sup>2</sup>

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1. Edward L. Hudgins and Richard B. McKenzie, "The Department of Commerce," in Stuart Butler, Michael Sanera, and W. Bruce Weinrod, eds., Mandate for Leadership II, (Washington, D.C.: The Heritage Foundation, 1984), p. 39.

2. Steve H. Hanke, "U.S.-Japanese Trade: Myths and Realities," The Cato Journal, Winter 1983/84.

4) Remove barriers to the development and export of natural gas from Alaska's North Slope.

Various legislative and executive barriers prevent the liquefaction and sale of as much as \$11 billion worth of North Slope natural gas to Japan annually. Such exports would require initial capital investments and time to develop liquefying facilities and a pipeline. Yet the investment would be well worth the time and money. Currently the natural gas is not used in America, but is being pumped back into the oil wells from which it comes as a natural result of oil extraction. This replacement process loses part of the gas and in the long run will actually damage the oil fields. Since this oil is not being used by Americans, there would be no need to secure replacement imports from elsewhere. Therefore the result of sales to Japan would be a real, substantial drop in the trade deficit with Japan and in the overall U.S. global trade deficit.

5) Repeal the Foreign Corrupt Practices Act.

The Foreign Corrupt Practices Act (FCPA) was passed by the U.S. Congress in 1977 to make U.S. companies liable under American law for practices by their agents overseas considered corrupt by U.S. standards. Many such actions (usually, giving money to public officials to secure the needed permission to do business) are not illegal or are considered acceptable in many Third World countries. The FCPA ban puts U.S. exporters at a serious disadvantage, since European and Japanese companies competing in the same markets suffer no such restrictions and thus are able to obtain favorable attention. Further, this ban has done nothing to discourage other nations' behavior considered corrupt by U.S. standards; it has simply driven foreign business to America's competitors.<sup>3</sup>

While perhaps well intended, the Foreign Corrupt Practices Act has failed in its purpose and cost U.S. exporters dearly. This act should be repealed.

6) Allow the export of Alaskan oil to Japan.

Currently the U.S. prohibits the export of domestic oil. Yet the Japanese might well prefer to replace some of its Middle East imported oil with as much as \$10 billion per year worth of closer, cheaper Alaskan oil.<sup>4</sup> The U.S. would have to replace part of this exported

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3. Catherine England, "The Foreign Corrupt Practices Act: A Case of Overkill," Heritage Foundation Issue Bulletin No. 74, November 25, 1984.

4. Milton R. Copulos, et al., "Exporting Alaska's Oil and Gas," Heritage Foundation Background No. 248, February 22, 1983.

oil with imports from elsewhere. Yet it would cost less than is currently the case for the U.S. to sell Alaskan oil to Japan and use the proceeds to purchase less expensive oil from Mexico, the North Sea, or the Middle East.

7) Abolish the Commerce Department short supply list that currently carries export restraints.

The Export Administration Act established a list of items allegedly in "short supply." Export restrictions are imposed on them, not for reasons of national security but on questionable economic grounds. Predictably, there is much disagreement as to what should be included on this list, which consists of various refined petroleum products. Export restrictions for reasons other than national security adversely effect U.S. trade and probably cause more economic harm than good. If certain goods or commodities are essential for U.S. security, they should be placed on an appropriate security list and, if need be, stockpiled, as is currently done with oil and other strategic minerals. The short supply list, containing the other items that carry export restrictions, should be abolished.

8) Streamline the export licensing process.

For valid reasons of national security, export licenses are required for U.S. goods. In the past, the licensing process often has meant serious delays in the delivery of products by U.S. producers to foreign customers. This has caused foreigners to turn to other, non-American, suppliers, thus directly harming U.S. exports. Over the past couple of years, the Reagan Administration has reformed the licensing system. Yet, in light of the current trade problems, a further review and further streamlining would be helpful.

#### CHANGE REGULATIONS THAT HARM U.S. EXPORTERS AND OTHER BUSINESSES

9) Change cargo preference rules that raise the price of U.S. agricultural exports.

Cargo preference laws require half of government-financed agricultural products for export to be shipped on U.S. vessels. The U.S. Agriculture Department estimates that this adds about \$35 per metric ton to such U.S. exports.<sup>5</sup> Further, a recent U.S. District

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5. The Economist, August 3, 1985, p. 23.

Court ruling has extended these shipping requirements to U.S. farm products receiving "blended credit" and other forms of government assistance.<sup>6</sup> The Agriculture Department estimates that this could add up to 15 percent to the costs of such exported goods. Cargo preference requirements, which significantly raise the price of U.S. commodities, clearly discourage foreign purchases. Agricultural products constitute one of American's most important exports. To burden them with high shipping costs makes no economic sense. U.S. agricultural products should be exempt from cargo preference requirements.

10) Cut farm price supports that keep the prices of agricultural products high and thus discourage exports.

Government farm programs set an effective floor below which many commodity prices cannot drop. This subsidizes inefficient farmers and pushes up the price of U.S. products, thus discouraging exports. Phasing down such price supports would lower prices and increase export opportunities.

11) Review work rule requirements that add to the shipping costs of U.S. exports.

In many U.S. ports, shipping costs are particularly high due to work rules that require more men on site than are actually needed to perform the work. Where work rules are set by free agreement between the parties, no government action should be taken. But when wasteful rules result from government standards or what amounts to government backing of unreasonable union requirements, changes should be made. The Administration should review work rules, which they require or agree to, that add unreasonable costs to U.S. exports.

12) Tighten the Freedom of Information Act to ensure the confidentiality of U.S. trade secrets.

The Freedom of Information Act (FOIA) of 1974 was meant to ensure citizen access to information about themselves that the federal government might have. Those who mainly avail themselves of the FOIA are not private citizens or even public interest groups or journalists. Rather, FOIA is used chiefly by businesses, including many foreign companies and even communist countries seeking the trade secrets of various U.S. companies. Businesses dealing with the federal government or attempting to comply with federal regulations are often required to turn over proprietary information to the government. Other companies seek such information via the FOIA. Recently the Supreme Court upheld the right of a government agency, in

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6. David Rapp, "Panels Differ Over Preferences for U.S. Ships," Congressional Quarterly Weekly Report, June 22, 1985, p. 1208.

this case the Environmental Protection Agency, to release a company's trade secrets. This undermines basic property rights. It is bad enough for U.S. businesses. But what is worse is that foreign companies, in countries where enforcement of patent rights is lax, can easily acquire trade secrets from U.S. companies and sell cheap, counterfeit products throughout the world. This dampens demand for the genuine goods, made in the U.S. The problem can be resolved partly by: 1) restricting the types of information government agencies can demand from firms to satisfy regulatory functions; 2) restricting the types of information government agencies can release on demand in the absence of a court order; and 3) giving firms providing information the right, to charge for information released by government agencies.<sup>7</sup>

13) Require an export impact statement for future regulatory proposals.

In the past legislators have paid too little attention to the potential adverse impact of regulations on the ability of U.S. companies to export and to stay competitive with their foreign rivals. In the future, assessment of their impact on U.S. exports and international competitiveness should be required of all new regulations.

14) Set reasonable standards and liability limits for product liability suits.

A new threat to U.S. businesses comes from the lack of uniform standards governing product liability. Courts award huge damage settlements without adequate proof that a company's product is responsible for alleged damages. The adverse effects on U.S. businesses are serious and mounting. Some companies have gone out of business, unable to pay the soaring liability insurance premiums. The costs, of course, are always passed on to the consumer--foreign as well as domestic. The result: U.S. international competitiveness suffers.

While businesses and manufacturers should be held liable for injuries caused by their products due to their own negligence, liability laws must be uniform and reasonable. The current chaotic system is not fair, invites nuisance suits, and seriously damages U.S. businesses. No other industrialized country suffers under such

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7. Richard B. McKenzie, A Blueprint for Jobs and Industrial Growth (Washington, D.C.: The Heritage Foundation, 1983), p. 32-33.

crippling laws. Congress and the Administration should quickly reform product liability laws.<sup>8</sup>

15) Repeal the Corporate Average Fuel Economy standards on U.S. auto companies.

The Corporate Average Fuel Economy (CAFE) standards, passed in 1975, were meant to promote fuel economy. Under these standards, the average gasoline mileage for all cars sold by a given company has to meet a certain, annually rising, standard. Today, the CAFE standards threaten to harm the U.S. auto industry seriously. In 1984, Americans bought more larger cars than in the past, due in part to lower gas prices and to the success of American auto makers in producing fuel efficient large cars. However, CAFE is not calculated on the basis of fuel efficiency increases on a model by model basis, but on the average fuel efficiency of all autos sold. This means that, because American consumers want to buy more large cars, General Motors and Ford fell short of the CAFE standards in 1984. They faced nearly a billion dollars in fines and massive layoffs of workers from factories producing full-size models.<sup>9</sup>

Secretary of Transportation Elizabeth Dole granted a one-year reprieve to GM and Ford. However, it is very difficult for the U.S. auto industry to plan ahead and to invest in more efficient production techniques if they must worry from year to year about damaging government penalties. In the future the U.S. auto industry might well regain some of the international sales that it lost over the last decade if the government leaves it alone. The CAFE is harmful to the U.S. industry and should be abolished.

#### PROMOTE RESEARCH AND DEVELOPMENT

16) Make the research and development tax credit permanent and applicable to software and start-up companies.

The U.S. historically has been the technology and innovation world leader. In this, research and development are crucial. The Economic Recovery Act of 1981 granted a 25 percent tax credit on increases in research and development expenditures. This has triggered increased R&D investments. The credit, however, effectively excludes start-up companies and computer software and is due to expire

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8. Milton R. Copulos, "An Rx for the Product Liability Epidemic," Heritage Foundation Background No. 434, May 15, 1985.

9. Milton R. Copulos, "Why Auto Mileage Rules Should Be Relaxed," Heritage Foundation Background No. 426, April 23, 1985.

at the end of 1985. Since most R&D projects are long-term, this deadline acts as a severe disincentive to future R&D. The credit should be made permanent and applied to start-up companies and computer software.

17) Allow tax credits and greater deductions to corporations contributing state-of-the-art scientific equipment and related support services to universities and colleges.

International competitiveness requires the U.S. to have a highly trained labor force. The demand for qualified engineers, scientists, and technicians far outstrips the U.S. supply. Part of this problem arises from the expense of education, which in these fields requires costly equipment and laboratories. The rapid pace of technological change means that students trained on old equipment often find their education partially irrelevant to the requirements of modern industry. Tax credits and enhanced deductions for corporate contributions of state-of-the-art equipment and support services for educational purposes would foster up-to-date training and promote closer cooperation between universities and the private sector without expanding the federal budget or bureaucracy.

#### ANTITRUST REFORM<sup>10</sup>

18) Modify Section 7 of the Clayton Antitrust Act to require consideration of international competition when determining whether a monopoly exists.

Under current law, the Federal Trade Commission can block a merger or break up a company if it monopolizes a segment of the market. A monopoly often has been viewed in terms of a lack of domestic competition. Yet a large U.S. company with few or weak domestic rivals might face ferocious competition from foreign companies. This prevents the U.S. firm from monopolizing the U.S. market. No danger of monopoly exists here. The U.S. government often has not taken this into account when it blocks mergers or acts against U.S. companies. This weakens them in competing with foreign firms. Section 7 of the Clayton Act, which attempts to define monopolies, should be amended to make clear that the existence of foreign competition must be taken into account. Allowing mergers in besieged U.S. industries will permit the U.S. to compete with foreign behemoths.

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10. See McKenzie, Blueprint, op. cit. "Antitrust" section for review of many of these points.



19) Modify Section 2 of the Sherman Act to insure that competitive success as such is not considered "attempted monopolization" and a violation of antitrust laws.

The prohibition against "attempted monopolization" in Section 2 of the Sherman Act can allow federal action against a company that has simply been more successful and efficient in the marketplace. The effect is to punish success. Section 2 of the Sherman Act has been used against aluminum, tobacco, and oil companies among others that had operations better than their competitors. This section, which is supposed to promote competition by discouraging monopolies, ironically can have the reverse effect. Companies might not compete as hard for fear of antitrust action. The Sherman Act should be modified to deal with this problem.<sup>11</sup>

20) Liberalize further the Export Trading Company Act, extending opportunities for cooperation to banking and other service companies.

Under the Export Trading Company Act, special certification can be granted to trading companies. This certification can afford opportunities for cooperation in pursuit of exporting that might be questionable under U.S. antitrust laws. In light of the current trade problems, this act should be further liberalized. In particular, banking and other services should be given special attention.

21) Specify the meaning of "unfair methods of competition" in Section 5 of the Federal Trade Commission Act.

The "unfair methods of competition" provision in Section 5 of the FTC Act is so vague that businesses do not know whether they are engaging in "unfair" practices until the FTC rules on it. Under various antitrust provisions a company might be found in violation for charging more than its competitors, the same amount as its competitors, or less than its competitors. "Unfair" is defined after the fact, on the basis of no objective standard. U.S. businesses thus often hesitate to take risks, in fear of being found guilty of "unfair" practices. The meaning of "unfair" should be defined clearly.

22) Consider all business practices subject to antitrust action under a "rule of reason" approach rather than as "per se illegal."

Section 1 of the Sherman Act has been interpreted to mean that certain kinds of business practices (price fixing is the primary

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11. D. T. Armentano, "Antitrust Policy: Reform or Repeal?" Cato Institute, January 18, 1983.

example) are "per se illegal." This has serious drawbacks. For one thing, in certain situations various business practices foster efficiency and greater competition. For another, rulings under the provisions of Section 5 have found that failure to cooperate in pricing violates the law. This confusion and the failure to consider business practices in context could be reduced if a "rule of reason" approach is used. Each action by business would then be considered on its own merits.

23) Abolish automatic trebling of damages for antitrust violations.

Under Section 7 of the Sherman Act, damages awarded to an injured party are automatically three times the actual amount of the assessed damage found to be the result of monopolistic practices. The effect is to put U.S. businesses at a competitive disadvantage. The reasons: 1) businesses might avoid perfectly legal and productive practices if there is the least suggestion of being regarded as monopolistic; and 2) the triple damage threat invites nuisance suits. Since many cases are settled out of court, and since legal costs are high, U.S. businesses are faced with paying what amounts to extortion money to keep from facing high legal costs on the one side and the threat of triple damage penalties on the other. This raises costs to U.S. businesses and diverts funds from profitable investments. Section 7 of the Sherman Act should be amended to base rewards only on actual damage.

24) U.S. antitrust laws should not be applied to U.S. business operations overseas.

The U.S. is the only major developed country applying its own antitrust laws to its businesses operating abroad. An American business overseas, engaging in activities perfectly legal under the antitrust laws of the host country, which do not have an impact on the U.S. market, can still be liable under American law. This, understandably, puts American businesses operating overseas at an enormous disadvantage. While American policy makers complain that U.S. companies often are excluded from the inside operations of the Japanese system, many practices of that system could well put U.S. firms in violation of U.S. antitrust laws.

The U.S. should cease enforcing its antitrust laws on the activities of American companies overseas.

25) As a form of trade relief under Section 201 of the 1974 Trade Act, allow exemptions from all antitrust laws except Section 1 of the Sherman Act.

Under Section 201 of the Trade Act of 1974, U.S. companies suffering injury from foreign imports can be granted relief by the International Trade Commission, usually in the form of

counterproductive import restrictions. A better remedy would be a five-year relief from all antitrust laws except the basic prohibition on restraint of trade found in Section 1 of the Sherman Act. Companies harmed by foreign imports then would be able to effect mergers, operate joint ventures, and coordinate activities to help them remain competitive.

#### PROMOTE SAVINGS AND CAPITAL ACCUMULATION

26) Cut further or index capital gains taxes.

Americans save only 5 to 6 percent of disposable income. The Japanese save around 17 percent. This greater savings allows Japan to invest continuously in new plant, equipment, and technologies that keep Japanese firms internationally competitive. The federal government can promote more savings by cutting the U.S. capital gains tax or by indexing this tax to inflation. More U.S. savings would make U.S. goods more competitive and boost U.S. exports.

27) Encourage savings with expanded Individual Retirement Accounts and with similar accounts for health care, education, and "employment transition."

IRAs not only have encouraged Americans to save more but to make provisions for their retirement. More savings could be promoted if tax-deferred accounts were allowed for health care and the education of oneself and one's children. A special "job transition" tax exempt account also could be allowed. Workers would be taxed on these funds only as the money was withdrawn during periods of unemployment. If money still were left in such accounts at retirement, it could be withdrawn as additional retirement income and taxed as it was used. This would help ease the transition of workers from one job to another. It would be a particularly useful way to deal with trade adjustment problems.

#### TAX REFORM

28) Replace business depreciation allowances with "immediate expensing" of all asset purchases.

Under the present tax system, business capital purchases, such as machinery and equipment are depreciated over a period of years. If businesses were allowed to deduct immediately the full cost of new capital purchases from their taxable income, it would encourage the

increased capital investments needed by many companies to become internationally competitive.<sup>12</sup>

29) Cut general tax rates to encourage economic growth.

The heart of the Reagan Administration tax reform, as well as of many tax reform plans before Congress, is a general reduction in marginal tax rates. The rate cuts in 1981 were in large part responsible for the strong economic growth of 1983 and 1984. A further cut in taxes would help U.S. businesses become internationally competitive and innovative.

#### INTERNATIONAL ACTIONS

30) Proceed with a new round of General Agreement on Tariffs and Trade (GATT) talks.

For several years the Reagan Administration has been planning a new GATT round to further liberalize world trade. At the Bonn Summit this May, the other major industrialized democracies agreed in principle to a new round. Those concerned about opening new markets to U.S. exports should support the Administration's efforts to persuade other nations to agree to an early convening of a new GATT round.

Topics for negotiation should include, among other things, liberalizing trade in services (such as banking and insurance), strengthening patent and copyright protection, and abolishing government subsidies to exporters that allow less efficient industries to compete with those more efficient overseas. Also on the agenda should be agriculture subsidies and nontariff barriers, such as quotas and discriminatory licensing practices. The GATT enforcement mechanisms must be tightened to prevent countries from circumventing the current agreement.

31) The U.S. Special Trade Representative should attend the annual summit conferences of the major industrialized democracies.

The U.S. Special Trade Representative normally does not attend the annual summit meetings of the leaders of the U.S., Japan, West Germany, France, the United Kingdom, Italy, and Canada. His absence surely results in many lost opportunities for resolving trade differences. When then U.S. Trade Representative Robert Strauss accompanied President Jimmy Carter to the Tokyo summit, progress was

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12. Thomas M. Humbert, "How to Cure America's Capital Anemia," Heritage Foundation Backgrounder No. 286, August 26, 1983.

made in trade liberalization. The U.S. Trade Representative should attend future economic summits.

32) The International Trade Commission should place greater emphasis on protecting U.S. patents, if necessary, amending Section 337 of the Tariff Act of 1930 (19 U.S.C. Sec. 1337) to accomplish this.

Property rights are at the basis of a free market system. The protection of intellectual property, such as patents and trademarks, is one of the government's most important functions. When foreign companies steal and use U.S. patents, cheaper, counterfeit goods can grab the market from exports by the patent-holding American company. It is difficult to deal with this problem when foreign counterfeiters are selling overseas. The Administration should make the protection of property rights of U.S. companies a central goal of its international economic policy.

When counterfeit goods enter the U.S., the International Trade Commission (ITC) is designated to deal with them. Yet ITC policy at times seems confused. For example, sometimes the ITC requires that a U.S. company not simply prove that its patent has been stolen but also that its business is adversely affected by the importation of illegally produced goods. Such an injury test is inappropriate; the issue is property rights.

The protection of U.S. firms in cases of patent and trademark theft is an important function of the ITC. If need be, Section 337 should be amended to make clear that an injury test is not required and that theft alone is grounds for relief against a foreign country.<sup>13</sup>

33) Create Free Trade Areas with countries that desire totally open markets.

While the multilateral trade liberalization of a new GATT round is preferable, the extent of such liberalization often is curbed by some GATT members. If two countries, however, desire complete free trade between them, they can create a Free Trade Area. By it, both countries would remove substantially all tariff and nontariff trade barriers. Each country would have complete free access to the other's market. The U.S. recently has concluded a Free Trade Area agreement with Israel.<sup>14</sup> This concept should be extended still further. A Canadian Royal Commission study recently recommended such an agreement

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13. Hudgins and McKenzie, op. cit., pp. 39-40.

14. Edward L. Hudgins, "The Case for a U.S.-Israel Free Trade Area," Heritage Foundation Executive Memorandum No. 53, May 22, 1985.

between Canada and the U.S. Another possibility is a U.S.-Japan free trade area. The Administration should announce its willingness to negotiate a free trade area with any country with a market economy, willing to remove all barriers to U.S. exports and investments.

34) Expand where appropriate staff levels in the commercial offices of U.S. embassies.

U.S. exporters often encounter political and bureaucratic roadblocks in foreign countries. Special information concerning the foreign political and economic system, moreover, is sometimes necessary for U.S. exporters to succeed. U.S. embassies play an important role in helping U.S. businesses overseas. Many embassies, however, lack sufficient staff to deal with commercial matters. The Administration should review current staff levels of commercial offices of U.S. embassies. If more personnel are required to meet the needs of U.S. exporters and businesses abroad, the staff levels should be increased.

35) Promote economic growth policies for Less Developed Countries.

The Less Developed Countries (LDC) debt crisis had a devastating impact on U.S. exports. As Latin American debtor nations, for example, cut imports to save hard currency to pay their debts, U.S. sales to them fell by \$17 billion between 1981 and 1983. An economic recovery and expansion in the LDCs would create new markets for U.S. exports. Some of the conditions, however, imposed by the International Monetary Fund (IMF) on LDC debtors in exchange for loans, actually harm the economies of such countries. IMF policies that call for tax increases, for instance, harm the private productive sectors of such countries. Policies that limit imports not only cut U.S. export opportunities but also cut off foreign businesses from essential resources. The U.S. should oppose IMF conditions that might promise short-term gains at the expense of future economic growth.

36) Consider international monetary reform

The current system of floating exchange rates permits wide swings that cause trade distortions. And changes in trade flows always lag behind changes in exchange rates. The Bretton Woods system of pegged exchange rates that collapsed in the early 1970s is hardly a model for the future. A closer coordination of monetary policies between the major industrialized countries could be helpful but would probably be impossible to achieve. Some kind of commodity standard, such as gold, would solve most exchange problems. Few policy makers at this time, however, are willing to consider the idea seriously. It would be useful for the Administration to explore more vigorously the exchange rate issue and solicit opinions on what could be done to reform the system. This would facilitate and expand international trade.

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