UPDATE

The Heritage Foundation Backgrounder

214 Massachusetts Avenue N.E. Washington, D.C. 20002 (202)546-4400

9/29/87 Number 54

ROBUST U.S. TEXTILE INDUSTRY NEEDS NO MORE PROTECTION

(Updating *Issue Bulletin* No. 135, "The Textile and Apparel Trade Act: Saving Jobs at a Cost of $4 Million Each," July 30, 1986.)

Ronald Reagan last year vetoed a protectionist textile trade bill that would have cost American consumers billions of dollars in higher prices. This year, Congress once again is considering a law to restrain imports. Passed by the House earlier this month and awaiting Senate action, this warmed over legislation would only assure that many markets remain closed to U.S. exports while new barriers would be erected in retaliation to American protectionism. Moreover, there is no case for increased protection for the textile industry. The U.S. textile and apparel industry today is working at almost maximum possible output, and production is at near record levels. Rather than closing markets further, Congress should consider liberalizing textile trade to relieve the American consumer.

Trade policy continues to be an important issue on Capitol Hill with many Congressmen understandably expressing the concern that some foreign markets are closed to U.S. goods while America's market is relatively open. These lawmakers maintain, correctly, that a more open world trading system would benefit both the U.S. and its trading partners. Yet in the case of textiles and apparel, it is the U.S. which has the most protectionist policy in the industrialized world. U.S. multilateral restrictions, instituted in 1961 as a "temporary" measure, have since grown tighter.

Inviting Retaliation. Now Congress seeks to limit the growth of textile imports to just one percent per year. Clearly it weakens America's case for more open trade when Congress maintains the world's most closed market in textiles. America's protectionist example will only give an excuse to other countries to retain their protectionist policies. And controlling U.S. imports further will cause these countries to retaliate against U.S. exports, especially against agricultural products.

Rather than raising barriers, the U.S. should be considering a reduction of textile controls, to give the lead to other countries. The American textile and apparel industry is in sound economic shape. Capacity utilization in textile mills is 94 percent, compared with about 81 percent for U.S. manufacturing as a whole. From 1985 to 1986 total textile production rose by 6.5 percent, to near record levels, and U.S. mill consumption of cotton, wool, and other fabrics used to make apparel topped previous records. Moreover, industry profits have soared. Total industry profits rose 46 percent in 1986. One study finds $100 invested in six leading U.S. textile company stocks in March 1985 would be worth $176 today.

Increasing Capacity. Most U.S. textile and apparel plants have modernized in recent years, introducing new, efficient machines to cut production costs. Many plants now work 24 hours per day, seven days per week and continue to add capacity. Ironically, some plants have serious problems finding enough manpower to run operations at full capacity. It is not surprising, therefore, that unemployment in North and South Carolina, two of the leading textile producing states, is below the national average.

In addition, the industry has trouble meeting domestic and international demand. For example, under the Caribbean Basin Initiative, Caribbean apparel imports are given generous import treatment if U.S. fabric is used. Yet producers in many of these countries have great difficulty obtaining this material from American firms. In addition, there are shortages of a cotton sheeting fabric that American producers must import from the Soviet Union.

Doubling Consumer Costs. Any additional import restrictions on textiles and apparel would thus do nothing to help the booming textile industry. All they would do is allow firms to exploit an undersupplied domestic market by hiking prices and hitting the American consumer. Current quotas and tariffs already add over $25 billion a year to consumer costs. A study by William Cline of the Institute for International Economics estimates that elimination of existing tariffs and quotas would cut domestically produced apparel prices by 18.9 percent and prices for imports by 34.6 percent. Conversely, passage of the proposed new trade restrictions could double the current consumer costs of protection.

The current health of the U.S. textile and apparel industries shows clearly that more protectionism is not needed. The high cost to American consumers of current market restrictions shows that Congress should be opening the market that the U.S. has tried to keep shut for nearly three decades. The U.S. must not violate its own principles by giving further privileges to a special interest group that has no need for such favors. American textile and apparel protectionism only makes it difficult for the U.S. to open foreign markets further to its exports. Congress should avoid such self-destructive economic policies.

Edward L. Hudgins, Ph.D.
Walker Senior Policy Analyst