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THE TRADE BILL DESERVES A VETO

The thousand-page Omnibus Trade Bill (H.R. 3, S. 490), recently reported out of House-Senate conference, is a disappointment. Rather than seeking to expand trade by opening foreign markets, the legislation makes it easier for some U.S. industries to restrict their foreign competitors at the expense of the American consumer. Further, the bill would limit the freedom of industries to close down or cut back inefficient, money-losing facilities, thus harming U.S. competitiveness. And the bill would create costly new budget-busting government programs and entitlements. Even with the removal of an amendment by Representative Richard Gephardt, the Missouri Democrat, which would have mandated trade restrictions against countries with "excessive" trade surpluses, the bill would do serious harm to the U.S. economy. Since Congress has shown that it will not reject destructive protectionist measures and government regulations, Ronald Reagan should veto the bill if it reaches his desk.

Ignoring Economic Reality. Proponents of the trade bill argue that congressional action is necessary to deal with the perceived problem of the trade deficit and with real problems of foreign import restrictions. Yet with the decline of the value of the dollar, U.S. exports have soared to record levels over the last two years. American industries from textiles to pharmaceuticals have improved their efficiency and now find it difficult to keep up with the flood of overseas orders. Some parts of the U.S. even are experiencing labor shortages as unemployment continues to fall. And the new round of multilateral trade liberalization talks, the Free Trade Areas being phased in with Israel and Canada, and bilateral negotiations with Asian countries are opening markets further to U.S. goods. The current trade bill, however, focuses on yesterday's problems while ignoring current economic reality. It would not only offset recent progress but endanger future economic growth as well.

The Omnibus Trade Bill contains numerous provisions, many not related to trade matters, that invite a presidential veto. Among them:

♦♦ The bill would make it easier for U.S. industries to receive protection against foreign competitors from the International Trade Commission (ITC) under Section 201 of the 1974 Trade Act. As the law currently stands, an industry allegedly harmed by imports can seek five years of trade restrictions to adjust to new market situations. The ITC would be required to focus only on domestic production facilities when determining whether an industry is suffering injury from imports. Thus a healthy American industry with weak domestic operations but strong overseas branches could receive trade protection. Another provision would make it easier for an industry suffering economic difficulties during a recession to gain protection against imports from the ITC even though imports were not the primary cause of the industry's problems.

◆◆ Strict time limits would be set on Administration attempts to deal with unfair trade practices by foreign countries. If these time limits are not met, retaliation would be required. Such a constraint actually would make it less likely that the Administration would be able to negotiate the removal of foreign trade barriers.

◆◆ Businesses would be required to give 60 days notice before closing an inefficient, money-losing facility or laying off more than 100 workers. This would add billions of dollars in losses to U.S. enterprises and probably drive some otherwise salvageable enterprises out of business. Further, businessmen would be less likely to add workers during times of high demand for fear that future cutbacks would be difficult and costly. In the European Community where such restrictions apply, no net new jobs have been created since 1975. Over 25 million jobs were added to the U.S. economy during the same period.

◆◆ The legislation would require numerous new councils and government studies that would add both red tape and cost to government and make it less effective in dealing with economic problems. Example: A "Council On Competitiveness" would be created with $10 million in taxpayer's money. With dozens of private groups and government agencies looking into this issue, a costly new bureaucracy is not needed.

◆◆ A Trade Adjustment Assistance provision would become a new entitlement for industries claiming injury from imports. While an import tax supposedly will pay for the program, the proposed tax probably violates present U.S. trade agreements. The U.S. taxpayer likely will end up footing the bill, estimated initially at $400 million.

The Omnibus Trade Bill will not improve U.S. trade or boost America's competitive status in the world. It simply will appease special interest groups while closing the American market further and destroying jobs in the long run. To help ensure that the record U.S. peacetime economic expansion continues, Ronald Reagan should veto the trade bill.

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For further information:

Edward L. Hudgins, ed., *Making America More Competitive: A Platform for Global Economic Success* (Washington, D.C.: The Heritage Foundation, 1987).

Edward L. Hudgins, "S.490: Protectionism's Dangerous Loaded Gun," Heritage Foundation *Issue Bulletin* No. 130, June 16, 1987.

Richard B. McKenzie, *Plant Closings: Public or Private Choices?* (Washington, D.C.: The Cato Institute, 1984).