Executive Memorandum

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THERE THEY GO AGAIN: A BOOMING TEXTILE INDUSTRY SEEKS TO STING AMERICAN CONSUMERS

While trade protectionism is never economically justified, it is understandable why U.S. industries suffering business difficulties would want to restrict competition from imports. It is not understandable when a healthy industry seeks such protection. Then it merely is a means to force the American consumer to pay higher prices. This would be the result of the Textile and Apparel Trade Act, a measure already approved by the House of Representatives, and now before the Senate as S. 2662. The Act would cut back imports and expand current quota restrictions to cover European and Canadian goods. The result: the Act would tighten the U.S. textile industry's quasi-monopoly on the U.S. market.

The American textile and apparel industry clearly is an industry that does not need help. It is working at almost maximum capacity. Capacity utilization is around 95 percent, compared to an 83 percent average for all American manufacturing. Consumption by U.S. mills of such raw materials as cotton, wool, and man-made fibers used for production hit a record high of 12.8 billion pounds in 1987. Many plants work 24 hours per day, seven days per week. Employment is up by 3 percent, with 21,000 new jobs added last year. Some plants, in fact, cannot find enough manpower to operate the mills at full capacity.

Record Profit. Even working at near capacity, and even with the productivity gained by modernization, the U.S. industry has had difficulty meeting rising domestic and foreign demand. Exports of U.S. textile products were up by 14.4 percent in 1987 while apparel exports soared by 25.1 percent. By contrast, textile imports fell during the first five months of 1988 by 8.2 percent and apparel imports were down by 10.5 percent during that same period. Needless to say, industry profits continue to rise. The textile industry saw a record profit of $1.9 billion last year.

The U.S. textile and apparel industry already is one of the most protected in the industrialized world. American consumers currently pay between $25 billion and $30 billion annually in higher prices due to these restrictions. The White House Council of Economic Advisors estimates that the protectionist bill under consideration by Congress would rob the U.S. consumer of another $25 billion to $37 billion over a five year period.

Undermining Free Trade. What is more, S. 2662 would endanger America's export boom. At the current Uruguay Round of negotiations of the General Agreement on Tariffs and Trade (GATT), the Reagan Administration is attempting to open foreign markets further to U.S. goods. This effort would be undermined severely by protectionist moves by Congress. U.S. support for mutual free trade would be seen as hypocritical. Further, other countries would retaliate against U.S. exports. Retaliation by West European countries and Canada, major trading partners which under S. 2662 would for the first time be subject to U.S. textile and apparel quotas, would be especially harmful. Canada is America's largest trading partner, with 1986 purchases valued at $55 billion. That same year, the European Community bought $53 billion from the U.S. Proponents of S. 2662 claim that U.S. agricultural exports would not be hit by retaliation since the bill gives special treatment to countries that increase their purchases of such products. Yet even with special treatment, these countries' textile shipments would be cut by the bill, though by less than for countries not buying more farm goods from America. This is hardly an incentive to treat the U.S. as a friendly trading partner.

Given the current strength of the U.S. textile and apparel industry, the protectionist bill before the Senate is without any humanitarian — to say nothing of economic — merit. In an industry suffering from a labor shortage, protectionism cannot be invoked as a way to save jobs. The bill, moreover, is an insult to other U.S. industries that survive and prosper through their own effort rather than government favors. To enact S. 2662, therefore, would grant the textile and apparel industry further monopoly status, harm the American consumer, and sabotage Reagan Administration efforts to open foreign markets further to U.S. goods.

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For further information:

Edward L. Hudgins, "Robust U.S. Textile Industry Needs No More Protection," Heritage Foundation *Backgrounder Update* No. 54, September 29, 1987.

Laura Megna Baughman, "The Textile and Apparel Trade Act: Saving Jobs at a Cost of $4 Million Each," Heritage Foundation *Issue Bulletin* No. 125, July 30, 1986.