

# ABOLISH THE DEPARTMENT OF COMMERCE: MOVE THE UNDERSECRETARY FOR INTERNATIONAL TRADE TO THE TREASURY DEPARTMENT

The legislation in Congress to dismantle the Department of Commerce (DOC) has raised concerns about how necessary functions currently performed by the department will be preserved. Business leaders in particular have expressed concern about protecting U.S. interests in international trade. Although the idea of creating a new Cabinet-level Department of International Trade is gaining momentum, it would not reduce the size of the Cabinet. Responding to the concerns of the business community about U.S. trade policy need not conflict with the initial goal of dismantling Cabinet agencies and reducing the size and scope of government. A more effective solution is to transfer international trade functions to the Treasury Department.

**Re-examine the Initial Proposal.** Section 204 of the Department of Commerce Dismantling Act transfers international trade functions of the Department of Commerce to the United States Trade Representative (USTR). The USTR is an extremely effective agency within the Executive Office of the President, with fewer than 170 employees. It conducts all trade negotiations and represents the United States in the World Trade Organization. A major reorganization of the USTR would be required to place more than 2,500 Commerce Department employees there. The USTR's mission would change dramatically from trade policy negotiation, closely linked to the President's role as a world economic leader, to enforcement of U.S. trade laws and promotion of exports.

The prospect of such a major change in the USTR has revived interest in a proposal introduced in previous years to create a Cabinet-level Department of International Trade. Representative John L. Mica (R-FL) has introduced legislation to establish a new U.S. Trade Administration, headed by a "U.S. Trade Representative" but actually performing the functions of a Cabinet department. The current role performed by the USTR would be performed by a Deputy USTR for Negotiations within the new department. Representative Mica argues that "a new cabinet department" is not being established because the current USTR already enjoys "cabinet status." But moving the USTR out of the Executive Office of the President into a new agency, like the corresponding demotion to "deputy" status of the actual negotiators of trade agreements, suggests the contrary.

Creating a new Cabinet-level department to replace the USTR is not only contrary to the intent of Congress in the budget resolution, but also would change completely the USTR's function in American trade policy. The President's trade negotiator has always worked directly with the highest ranking officers of other governments and has been most effective as the personal envoy of the head of state. In recent years, direct meetings between heads of state have played an increasing role in international economic relations. The Executive Office of the President requires a negotiation team like the USTR. Insulating trade policy development from the subsequent administration of trade agreements and other political concerns gives the USTR a necessary flexibility in resolving disputes with foreign governments that is quite different from the routine administrative methods of government bureaucracies.

**Create an Undersecretary of the Treasury for International Trade.** Congress should transfer Department of Commerce trade policy and trade law enforcement activities to the Treasury Department. An Undersecretary of the Treasury for International Trade should be created to assume all functions of the present Undersecretary of Commerce for International Trade. The new Treasury Undersecretary would have the same relative status within a Cabinet department, and the trade functions would complement and reinforce the Treasury Department's current role as the principal agency for international economic policy. There should be no change in the duties of the current Undersecretary of the Treasury for International Affairs.

The Secretary of the Treasury is the government's principal officer for international economic policy. The Treasury Department now has exclusive jurisdiction over all U.S. international economic relations, except trade policy, so the Secretary of Commerce is perceived abroad as a minor Cabinet officer. Except for the President, the Treasury Secretary has always been the chief spokesman for U.S. economic interests internationally. The more central role assumed by trade policy in the post-Cold War era requires greater coordination with other international economic functions—a magnification of influence that only a Treasury Secretary can bring.

To elevate the importance of enforcing U.S. international trade agreements—which is a central concern of both U.S. exporters and domestic industries—the Secretary of the Treasury should be given clear authority for all international economic functions. The Treasury Department is currently responsible for all enforcement relating to taxation of transnational corporations, which has important trade-related consequences. The Customs Service, within Treasury, is the enforcement agency for any trade regulations issued by the Commerce Department. As international trade grows, an increasing share consists of intermediate products and semifinished goods. This raises questions concerning the correct invoicing of these imports and exports both for determining taxable U.S. income and for accurately measuring the value of trade. The growing problem of fraudulent invoicing of traded goods affects taxation, balance of payments, and money laundering violations—all of which are Treasury Department concerns.

Any new trade agency outside the Treasury Department would fail to carry the authority that trade policy requires. It would remain a minor voice in the Cabinet. As a part of the Treasury Department, international trade issues would have the same relative status within a Cabinet department as they now enjoy, but an Undersecretary in the principal agency for international economic policy would have more influence in the administration.

**Improve the Administration of U.S. Trade Policy.** During the Carter Administration, Congress transferred responsibility for trade policy from the Treasury Department to a new International Trade Administration in Commerce because the Secretary of the Treasury had not corrected a number of problems. Most important, the Department failed to define and delegate responsibilities for administering U.S. trade laws effectively. The Treasury Department was unenthusiastic about enforcing textile and steel quotas, to the dismay of those industries and their supporters in Congress. The 1994 GATT Uruguay Agreement on textile quotas and other non-tariff trade barriers has removed those concerns. Today, a transfer—without substantial reorganization—of the position of Undersecretary of International Trade to the Treasury Department would protect and enhance U.S. interests in international trade by preserving a clear line of authority for administering U.S. trade laws and giving it more prominent Cabinet status.

**What Congress Should Do.** Export and import concerns should continue to occupy a priority position in the President's Cabinet, and the role of the USTR should not be diminished by any administrative reorganization. Congress should reject any proposals to create a new Cabinet-level international trade department. It would remain a minor voice in the Cabinet and would not carry the same authority internationally as the Treasury Department. The American people would see through the "shell game" nature of any such exercise and question the commitment of Congress to reducing the size of government. The Clinton Administration would be handed a strong argument for vetoing the entire reorganization proposal. Establishing a new Undersecretary of the Treasury for International Trade responsible for all current functions of the Commerce Undersecretary would address these problems and strengthen the administration of U.S. trade policy.

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For further information, see Heritage Foundation *Backgrounder* No. 1049, "How to Close Down the U.S. Department of Commerce."