PROPOSALS TO REORGANIZE THE TRADE-RELATED FUNCTIONS OF THE U.S. GOVERNMENT

HEARING

BEFORE THE

SUBCOMMITTEE ON
INTERNATIONAL ECONOMIC POLICY AND TRADE

COMMITTEE ON
INTERNATIONAL RELATIONS
HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

FIRST SESSION

SEPTEMBER 6, 1995

Printed for the use of the Committee on International Relations

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PROPOSALS TO REORGANIZE THE TRADE-RELATED FUNCTIONS OF THE U.S. GOVERNMENT

WEDNESDAY, SEPTEMBER 6, 1995

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY AND TRADE,
COMMITTEE ON INTERNATIONAL RELATIONS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 10:02 a.m., in room 2172, Rayburn House Office Building, Hon. Toby Roth (chairman of the Subcommittee) presiding.

Mr. ROTH. Well, the hour of 10 a.m. has arrived and we have a very important hearing this morning. We have a number of very distinguished witnesses with us today. And I know all of their time is valuable, so let us move forward expeditiously.

Our witnesses will summarize their testimony and then we will have the question and answer period.

The focus of today's hearing is very specific: As the House moves to dismantle the Commerce Department, the question becomes what should be done with the trade functions. Should they simply be transferred to the U.S. Trade Representative, as Congressman Mica has proposed, or should we go further and reach across the government and consolidate the dozens of trade functions and agencies into a new department?

These questions have an added urgency because of our persistent and worsening trade deficit. Last year, our merchandise trade deficit was $160 billion, the worst in history. And this year we are headed toward a $200 billion merchandise trade deficit, $40 billion more than last year.

We must organize our trade programs with the clear understanding that the Federal Government has a critical role in helping American exporters compete in global markets.

Today we have with us some of the Nation's most experienced and thoughtful trade leaders. Bill Brock has served with distinction in the House and in the Senate and as Labor Secretary and as our U.S. Trade Representative. And Clayton Yeutter has had a distinguished career in a variety of posts, including Secretary of Agriculture and our Trade Representative. For many years I have also worked with him.

We also have with us Don Bonker, who was in charge of this subcommittee for many years. I welcome his return here to Capitol

Hill, and I also well remember our 1983 ambition to create a Department of Trade.

And incidentally, all three of these distinguished witnesses have been with me to Appleton or Green Bay, Wisconsin to our Export Conference. And we have our big Export Conference again this year, a week from Friday, and we are expecting some 1,070 people at the conference. So I am excited to have them here for many reasons.

Also, from the General Accounting Office we will have Allan Mendelowitz who has spent years analyzing what works and what doesn't work in trade programs. It is great to have Allan with us as well.

To lead off, however, we have three of our distinguished colleagues coming back to Capitol Hill early. As you know, we will not have votes until after 5 p.m., but they came back early last night to be with us today.

Dick Chrysler is here, whose bill to dismantle the Commerce Department will be marked up here next week. We also have John Mica with us, who has introduced a very thoughtful bill to move the Commerce Department trade functions to the Trade Representative. Don Manzullo, chairman of the Small Business Committee's Trade Subcommittee and an active Member of this subcommittee joins us as well.

Congressman Gejdenson should be with us shortly. He is flying in from Connecticut for this hearing.

For those who have worked with us over the years to strengthen the trade programs, this may be our best, and last, opportunity to make the fundamental reforms that we have been thinking about and debating and cogitating over for a long time. In the interests of our exporters and our Nation's trade posture, I want to make the most of this initiative. I have spoken with Congressman Gilman and Speaker Gingrich and others about these initiatives. We want this hearing to go to the big markup on September 12th. From there we will be able to take this legislation to the floor or take a look at how we can roll it into reconciliation.

Issues we hear about this morning at this committee are going to be moved to the Full Committee and also to the Speaker's office. I want the witnesses to know that their testimony this morning is going to be very important, not only for this committee, but for the entire Congress.

With that, I think we will start with Mr. Manzullo. Then we will go to Mr. Mica and then Mr. Chrysler.

Chairman Manzullo, please proceed with your testimony.

Mr. MANZULLO. Thank you, Mr. Roth. It is a pleasure to be here this morning.

I represent the 16th Congressional District of Illinois, which stretches across the top of the State from the Mississippi River all the way over to the county that is next to the one which touches Lake Michigan.

Rockford is the center of that congressional district. Our district has in excess of 1,500 factories. Rockford alone has 980 factories. It is a city of less than 150,000.

Rockford is responsible for the exporting of 15 percent of the United State's share of tool and die. It is an incredible exporting

city. And so my interest here today is more than academic. It is directly related to the creation of jobs not only in the district that I represent but in this Nation.

The commitment of the congressional leadership to dismantle the Department of Commerce will create an historic opportunity to reorganize the trade functions of the Federal Government. Earlier this spring, I began to hold a series of hearings on the Export Subcommittee I chair on Small Business regarding the appropriate role and function of Federal export promotion programs.

First, I brought in the principle players in the Administration who promote commercial exports to explain and justify their programs. Because agriculture receives over half of export promotion funding, I held a second hearing specifically focusing on farm exports. I asked several academic experts who do not participate in any of these export promotion programs to comment on the merits or pitfalls of these programs. This hearing included the General Accounting Office.

Finally, several small- and medium-sized businesses testified at my fourth hearing to explain how these export promotion programs have helped to create and sustain jobs in their company. I also intend to hold another hearing on private sector resources that provide export information.

What did the Subcommittee learn from these hearings? First, the Federal Government has an information-providing and advocacy role in export promotion. This is not corporate welfare because these programs are open to all businesses. The government does not pick winners and losers. The key is getting the word out that these programs exist and making them work better.

Second, export promotion efforts of the Federal Government are a confusing mass of programs that are not fully integrated.

I submit for the record a copy of a chart prepared at my request by the Department of Commerce of the 19 agencies involved in the Trade Promotion Coordinating Committee.

[The information referred to appears in the appendix.]

Mr. MANZULLO. This is the chart over there, Mr. Chairman. It was the focus of an earlier hearing about 1 month ago and my constituents back home refer to it as the bull's-eye. They looked at it and said, "Do you have any idea as to how these organizations work together?" I said, "No." I met with several of these civil servants both in groups and individually and I am convinced that every single one is honest, sincere, hard-working and has the best interests of this country at stake. The problem is that they are captive of these 19 different agencies. We simply need a way to reorganize them and make them more operational.

The GAO testified at the third hearing saying that these programs do not necessarily have to spend more money. In fact, you can do a lot more with the proposed $3.2 billion 1996 budget request for these programs through streamlining and consolidation.

Why is it that nearly half of the Trade Development and the International Economic Policy Office are frequently asked by the U.S. Trade Representatives Office to focus on trade policy? Do we need that many people in those offices?

Why do we have a separate foreign agricultural service officer and a U.S. and foreign commercial officer serving in the same em-

bassy abroad or in the same city here at home? Why is the budget of Agriculture's Market Promotion program at $110 million serving less than 10 percent of our overall exports while the U.S. and foreign commercial service has a budget of $165 million serving the other 90 percent of U.S. exporters?

It is obvious that we need to totally rethink the Federal Government's trade promotion organization. The GAO identified five key principles for the Exports Subcommittee in reorganizing government: One, reorganization demands an integrated approach; two, reorganization plans should be designed to achieve specific, identifiable goals; three, once the goals are identified, the right vehicle must be chosen for accomplishing them; four, implementation is critical to the success of any reorganization; and five, oversight is needed to ensure effective implementation.

I ask that the entire GAO response to my inquiry be made a part of the record.

[The information referred to appears in the appendix.]

Mr. MANZULLO. Finally, the White House Conference on Small Business placed an unprecedented emphasis on trade, focusing on the creation of a one-stop-shop for all government trade information and assistance, especially for small business. That was the 11th top recommendation out of 60 from that conference.

You asked a series of questions, Mr. Chairman, in preparation for this hearing, asking my recommendations for a restructured Federal Trade Agency. Like you, Mr. Chairman, I support the trade reorganization bill introduced by my colleague, John Mica.

However, it does not go as far as I would. Like the small business people who attended the White House Conference last June, I want to see a true one-stop-shop for all Federal Government trade resources.

Personally, I would like to see all 19 agencies, including Agriculture and export financing combined into a new Trade Department. Why should the Commerce Department and the EPA both be promoting environmental exports? Should the Agency for International Development be involved in promoting trade? Why do we need different international economic statistical gathering experts at the State and Commerce Departments? Why does the USIA receive any export promotion funding at all?

Let me digress a second, Mr. Chairman. I received a communique from USIA wanting me to meet with an Italian Communist who was brought over here, paid for by the USIA's International Visitor's program. His name is Mr. Sergio Comparino, who is the provincial director, Piedmont Region, of the Democratic Party of the left, PDS, of Turin, which is known as the former Italian Communist Party. These are taxpayers' dollars that are being channeled through USIA under their "trade budget." I don't know why bringing over an Italian politician helps our trade position. I do know I was singled out to be with him because I am Italian (so is John Mica), not because I am not a Communist, but he wants to come over here.

Mr. MICA. And I am not a Communist either.

Mr. MANZULLO. John is not a Communist either.

There may be some redeeming value in having somebody come over here representing the former Italian Communist Party, speak-

ing to Members of Congress for the purpose of analyzing the structures and financing elections of the U.S. political party system.

I am not saying that this program has no merit. In fact, it probably has a tremendous amount of merit. But what has it got to do with trade promotion? And yet it is part of the $3.2 billion that is being spent by the Federal Government, spread out through 19 different agencies, on trade promotion.

I know that my proposal may be politically premature. For example, I understand the historic resistance to removing the trade negotiator from the Executive Office of the President. But if we have this comprehensive Trade Department with Cabinet-level status, it makes no sense to keep them separate. The Secretary of this new department would not have to resolve interagency disputes if every one of the trade-related functions from these 19 agencies is combined into this new department.

I also understand that there is historic resistance to remove agricultural-related trade issues outside of the Department of Agriculture, but it doesn't make sense to separate the one agency that receives over half of the export promotion dollars from this new Trade Department. I am willing to make the sacrifice to make this happen. This should not be a debate about preserving committee jurisdictional turf but what is in the best interests of the taxpayer.

For example, as part of the reauthorization process for the Small Business Administration, the Small Business Committee is prepared to eliminate SBA's Office of International Trade. Small Business people, though, must have a government resource for trade information that should be contained in a new Trade Department.

Finally, this new Trade Department should preserve a commercial voice on export licensing decisions. The Bureau of Export Administration must be part of any new reorganized trade bureaucracy. Turning export license over to the State or, God forbid, the Defense Department, would further impede America's ability to export dual-use items for purely commercial purposes.

Thank you, Mr. Chairman, for the opportunity to testify before you this morning. I am pleased to answer any questions you or your Subcommittee Members may have.

[The prepared statement of Mr. Manzullo appears in the appendix.]

Mr. ROTH. Thank you, Mr. Manzullo, for your excellent testimony. And I am going to ask you to keep your chart up because I think that is a good focus for us to have. And I appreciate all the work you have put into this, and not only this legislation but the entire issue of trade. And we welcome you. You are doing a super job.

I would like to welcome Mr. Ballenger, Mr. Rohrabacher, and Mr. Martinez to our hearing. It is nice to have you all with us this morning. I want to say that you are three of the most knowledgeable Members we have in the Congress on this issue, so it is great to have them with us this morning.

I am going to ask John Mica, chairman of the House Civil Service Subcommittee and the real leader in this area on trade reform, for his testimony.

And, John, I have always wondered why you didn't serve on the International Relations Committee because you would be a super person to have on the Committee.

Mr. MICA. Thank you, you are very kind, Mr. Chairman. And I appreciate your leadership on this issue and the other Members who are here today.

This is an important issue and I think it may really determine whether the United States is able to compete in the 21st century in the international trade arena.

Let me do a couple things, if I may.

I have a rather lengthy statement which I would like to submit for the record, a formal statement.

Mr. ROTH. Without objection.

Mr. MICA. Then, if I may, Mr. Chairman, I want to take the remaining few minutes and talk just informally about some of the things.

You have an important responsibility to sort out the various activities of the Department of Commerce and other Federal agencies and I know you deal a great deal with the State Department in your jurisdiction and try to find what functions fit properly. Mr. Chrysler started some of this debate by proposing the dismantling of the Department of Commerce, and certainly it has become sort of a dumping ground of all the various activities. Most people when they think of the Department of Commerce think that 95 percent of the activities would be in promotion of business and trade activities, and quite frankly, the budget tells it all. There is about 5 percent of the budget that is really devoted to trade promotion and direct business activities. NOAA takes up the large bulk of the activities of that agency, followed by the U.S. Census Department and then small activities, some of which have been attached on over the years.

The real question that we have to ask ourselves is the way that we are conducting trade assistance and promotion and financing, at least from the Federal Government's standpoint; is it working?

And you can see from the chart that Mr. Manzullo has displayed here, you have 19 agencies of Federal Government spending over $3 billion in various trade promotion functions and activities and some of them of a questionable nature. And I am glad Mr. Manzullo pointed out one area under your jurisdiction, which the U.S. Information Agency receives $28 million a year for export promotion. And the Small Business Administration is another agency that is in this area that also has a number of activities that could be consolidated.

In your specific area, I think that you should also look at the Bureau of Economic and Business Affairs which has over 2,000 officers working an economic trade, mostly data collection which historically has grown up in the embassy function. Some of these need to be retained. Some of these are good functions, but some of them in fact may be duplicative as we consolidate some of the trade functions.

One of the key areas to being successful in international trade in commerce and business, and having done this with medium, small, and large corporations, of course, is finance. And I think if I had, you know, the best of all worlds in bringing together various

activities in a new trade agency, I would look at Eximbank activities.

You can cut any deal in business or in international trade if you have financing, and that is the key to it. And we have for a long time kept this activity separate and apart and it hasn't been part and parcel to good trade activity. So that is another area that I would highly commend to you.

But, I will tell, you the proof is in the pudding, if you look at this. You ask yourself, is what we are doing working? The answer is unquestionably no.

We have the largest trade deficit in the history of the United States staring us in the eye this year. We are lagging in export in almost every single area and almost every month in every year we are losing in another area. So we do not have our trade act together.

How is it organized? It is organized in a disorganized, costly fashion. And now we have the opportunity with Mr. Chrysler's bill to dismantle Commerce with my proposal. We are not ending—I want to make it clear, we are not ending sliced bread as we know it. We are attempting to consolidate to do a better job, actually we can do it by spending less.

We do retain a Cabinet-level status in the bill that I have proposed. You still have the prestige and you have the access and you have the status necessary to conduct and promote trade. And for the first time we would consolidate and bring together, at least initially under my proposal, some of the functions that should be brought together.

Again, in the best of all worlds, I would like to see other things come in; finance and other activities that I think should be appropriately located in a trade office.

My proposal is an initial proposal. I also concur with Mr. Manzullo that the Bureau of Export Administration should not be transferred into State and it should go with the new trade agency. But I think in the most part we concur with our goals, it is working out the details, and I think we can do that working together and be much more productive in the final work product if we all row upstream together.

So with those comments, Mr. Chairman, again I thank you and your committee for your leadership and look forward to working with you on this important issue.

[The prepared statement of Mr. Mica appears in the appendix.]

Mr. ROTH. Well, I thank you, Congressman Mica, for your valuable insight. I know that you have a lot of practical experience in this area and we do have some questions for you, but I think we will first ask Congressman Dick Chrysler for his comments.

Mr. MICA. Mr. Chairman, I am going to run in and out. I have Mr. Brown. We are doing dueling hearings here.

Mr. ROTH. I thought dueling had been outlawed.

Mr. MICA. Be right back.

Mr. ROTH. Thank you.

We are going to ask Dick Chrysler, the author of the bill to dismantle the Commerce Department, for his comments.

We will then go to questions.

Dick, thank you for being with us this morning.

Mr. CHRYSLER. Thank you, Mr. Chairman, for the opportunity to appear before this committee to continue our discussion of the Commerce Department dismantling. As the chief sponsor of the bill which began this process, I am delighted that we have moved beyond the question of "should we dismantle the Department of Commerce," to the question of "how do we go about it?"

My previous testimony has focused largely on the reasons why we believe the Commerce Department should be dismantled. I know that you, Mr. Chairman, and Members of this committee are interested today in how we put together a sensible and efficient arrangement for trade policy and promotion in a post-Commerce Department Federal Government.

One of the biggest questions before us in this discussion is status of the current Office of the U.S. Trade Representative in any reorganization of trade functions. Both our proposal and Congressman Mica's would consolidate USTR and certain International Trade Administration functions into one unified Cabinet-level trade agency.

We must recognize that a divided trade policy establishment—USTR as the leader and ITA or its successor organization as the "poor cousin"—is not the norm worldwide. It is wasteful, duplicative and it reduces our effectiveness with our major trading partners like Canada, Japan, France, and the United Kingdom, all of which have unified and highly effective trade agencies. I am convinced that we can learn from these countries.

Why do we have one agency that negotiates market access and another that pursues those markets? Doesn't it make the most sense for both functions to be under one roof? By breaking Commerce's trade functions out of this bureaucracy, by streamlining those functions and by eliminating the senseless division that exists between USTR and ITA, U.S. businesses will end up with a much more effective advocate and our trading partners will face a much more formidable presence across the negotiating table. We will then be able to compete effectively with anyone in the world.

By putting all trade policy functions under one roof as our major trading partners do, we will dramatically increase the efficiency and effectiveness of the entire process. And we can do so with fewer people, at a greatly reduced expense to the taxpayers. We are facing a situation in this government in which we must take a page from the private sector's book and start working harder and smarter.

My written testimony goes into more detail as to what our plan recommends for the individual ITA functions. Let me just say now that I believe we should concentrate our limited trade promotion resources on those activities that do the most good, like the foreign components of the U.S. and Foreign Commercial Service.

Mr. Chairman, the private sector in this country has been undergoing a process of slimming down, which is temporarily painful but which ultimately strengthens the economic competitiveness of the United States. The voters of my district sent me here to help bring about a similar process in the Federal Government.

We have a tremendous opportunity this year to start down that path by dismantling the Commerce Department and consolidating the international trade functions into a unified, small and effective

trade agency. Not only do we end up with a more efficient trade policy process, but the Congressional Budget Office has indicated that our plan would save American taxpayers almost $8 billion over the next 5 years.

As a result of this process, I am confident that we will end up with a trade policy and trade promotion structure which speaks with one voice, is less costly to the taxpayers and is more effective in responding to the complexities of today's trading environment.

Thank you.

[The prepared statement of Mr. Chrysler appears in the appendix.]

Mr. ROTH. Well, thank you, Congressman Chrysler, and we want to commend you for the leadership that you have shown in this area and for being the real vanguard.

We have talked a lot about cutting back the size of government agencies and so on, but this is the first real initiative, so we tip our hat to you for that.

Mr. CHRYSLER. Thank you, Mr. Chairman.

Mr. ROTH. And I have a number of questions, but I think what I will do is I will go to Mr. Rohrabacher for his questions and then we will go to Congressman Martinez for his questions and comments.

Mr. ROHRABACHER. Thank you, Mr. Chairman.

The first question I have is where, as you fellows have focused on this more than I have this year, is there a difference between encouraging exports in terms of the structure and subsidizing investments?

Just a casual look at this, it seems to me we have intertwined the concepts of investment overseas and exports overseas, which in the end leaves the United States with a big minus if we are encouraging people to invest their capital overseas, which ends up creating businesses that compete with our own businesses, and in fact cutting off markets for our goods. And isn't there some kind of intertwining concept here that is working against the benefit of our people?

Mr. MANZULLO. Dana, when I started analyzing the different functions in this chart, I guess one of the things that really bothers me is I am beginning to understand it. And I didn't think my mind was that complex.

Mr. ROHRABACHER. That is what you live in, the chart.

Mr. MANZULLO. What is interesting about it is the fact that the people that prepared the chart know up here mentally how they want to work within these boundaries. We talk about the difference between encouraging and subsidizing exports. Take one of those organizations. Take the TDA, the Trade Development Administration. It has a very small budget, about $50 million. It only has about 35 employees. And what they do is they go into areas in the world where we are invited as "the U.S. Government" and draw up plans and specifications for projects which conveniently can only be fulfilled by American manufacturers. It is very professional and they know what they are doing.

And I believe there is a tremendous role for the Federal Government. This is the type of area where you cannot privatize because the background and the culture of many foreign countries is they

want to deal on a country-to-country basis. It is extremely important that economic matters rise to the highest level of cooperation.

And in the area of subsidizing, take OPIC, the Overseas Private Investment Corporation, which actually makes money. OPIC makes anywhere between $96 and $132 million a year. It is a money-maker. I don't see how that could be privatized, and you see it shows up in the budget. The budget request for this year, budget request, is minus $96,500,000.

So, you know, the United States does have an integral and active role in trade promotion. And I think these two types of examples show, No. 1, we are not talking about corporate welfare; No. 2, we are not talking about any type of a subsidy. What we are talking about is utilizing the prestige, the power, and the reputation of the Government of the United States of America to become actively involved, and in the case of TDA, at the request of foreign governments.

Mr. ROHRABACHER. You see, I don't think there is anything wrong with the U.S. Government—after all, these businesses pay a lot of taxes—helping them open up markets and perhaps going into a country and helping them set standards that would facilitate the sale of U.S. products.

I am going to take a much closer look at this than I have so far. But it seems to me just the look that I have taken, it appears that we are actually encouraging not someone to invest in order to set up a company to sell American products, but instead we are actually in a situation where we are encouraging American manufacturers to invest in the country not to set up the sale of American goods but instead to set up a manufacturing.

Mr. MANZULLO. That is fine, because one of the reasons for doing that is for many companies, unless they manufacture overseas, it doesn't pay for them to export, and you still maintain mostly the research and development here stateside.

Mr. ROHRABACHER. I don't think the American worker who is being taxed to pay for that thinks that is a good deal. The American people are the ones that are paying the taxes and end up providing that service. I don't think providing the service to create a new manufacturing unit in order to compete with American jobs here is a wise use of our tax dollars.

Mr. CHRYSLER. You are absolutely right on the money here. This is exactly why we need these 19 different Federal agencies consolidated into an Office of Trade, because the right hand doesn't know what the left hand is doing and we are doing this on one side and doing this on the other—and certainly Don is absolutely correct, except we need to go a little step further. You know, we need to make this Office of Trade the most dynamic trade organization that the world has ever known so we can compete with our trading partners, which means we need to be in these countries earlier than we are. We need to be writing the specifications for the infrastructure so maybe only American companies can bid on those things because they are written with American specifications.

Mr. ROHRABACHER. Let's take a look at infrastructure, which you just mentioned. I am a little bit concerned. I wouldn't mind at all if the American Government gets involved with these other countries and help set up specifications so that American companies

could go in and help build the infrastructure. But why should we have government agencies using tax dollars to subsidize?

Am I going over my time?

Mr. ROTH. Go ahead and finish your question.

Mr. ROHRABACHER. Why should we have the taxpayers of this country basically offering Federal guarantees for our own companies to go in and build the infrastructure of another country? That is basically not really an export. That is really a gift. If we are providing a guarantee for a loan, we are providing that infrastructure in that country. Well, I don't know if anybody has looked around, but we need a lot of infrastructure improvement in our own country.

Mr. MANZULLO. Dana, if I may answer that?

OPIC has a mandate that it cannot lead to any U.S. job loss. They are in the business of guaranteeing these investments abroad. OPIC cannot lend to any type of a situation that would result in a U.S. job loss.

Mr. ROHRABACHER. But see, you know, if we have a government agency providing either direct funds or loan guarantees in order to build a bridge or an electric plant or a sewer system in, let's say, some wonderful country like Vietnam, or other countries—it could be any other country in the world as far as I am concerned, but Vietnam is probably the best example of where we shouldn't build their infrastructure. We have a lot of infrastructure needs in our country and is this considered—Dick, is that considered an export that—should we be promoting that? We are building other country's infrastructures and basically taking on all the risks ourselves, is that a legitimate use of our dollars?

Mr. CHRYSLER. Especially the major companies that have, quite frankly, major departments within those companies that can go in and assess the risks of them doing that and, you know, if they assess the risk, as any good business should—go in and assess the risk and if they can say we can spend, you know, $2 million over here putting their infrastructure in or, as you indicate, do it right here in our own country, then let's make the right business decision and let's do it right here in our own country.

Mr. ROHRABACHER. Mr. Chairman, I don't want anyone to get the impression that I am against American companies going over and working on building infrastructure in other countries. That is not what I am suggesting. But what I am suggesting is it is not an export unless those companies are doing so at their own risk and those other countries are actually picking up the bill. Otherwise, we are just talking about foreign aid and giving away money that should be used building our own infrastructure.

Mr. CHRYSLER. Dana, I will just say that it is not a big government and/or big government programs and/or big government regulation that built this into the greatest country in the world. It is free enterprise, capitalism, entrepreneurship, rugged individuals taking those risks is what built this country into being the greatest country in the world.

Mr. ROHRABACHER. Thank you, Mr. Chairman.

Mr. ROTH. Thank you, Mr. Rohrabacher, for your excellent questions. All of your questions focused on what will be discussed on September 12th.

I am going to ask Mr. Martinez for his questions, and it is interesting that both Members here this morning are from California.

Mr. MARTINEZ. I am going to suggest that is the reason why I agree so much with what Mr. Rohrabacher has just said, because we are both from California and we have seen a tremendous downturn in our economy in California. It doesn't look like it is going to rectify itself anytime soon.

I am going to take off on what he said, but before I do that, I agree with the idea of consolidating all of the different trade situations under one roof and having one Trade Representative. I always believed that when you divide them up that way and you don't have someone at the head of it that is really a hard bargainer, we end up with lousy trade agreements, and it is our fault for ending up with trade agreements that are disadvantageous for us.

He mentioned the idea of investments of the United States going to foreign countries and investing in their infrastructure when our infrastructure is decaying badly, investing in their economy by creating jobs there, building products. And you mentioned that OPIC has this guarantee that anything they are involved in will not create job loss. Well, maybe OPIC isn't involved in anything, but I will tell you—take Procter & Gamble, for example, they go to Mexico and build their products down there.

They do sell in Mexico, but they ship a lot of what they sell back here, and we don't get a reduction in the price of goods that they ship back here because they got a reduction in the wage scales and the benefit packages down there which allows them to produce cheaper. They just widen their margin of profit, that is all, and balance their books that way.

The same thing with Van Heusen. Van Heusen in Hong Kong. One thing about Hong Kong is I am not going to complain too greatly about them because they buy most of their raw materials from us and their trade imbalance is one of the smallest that we have in the Pacific Asian Rim, and so I am not too unhappy about that. But it is still their products and their labor that controls the price of the product which causes Van Heusen to make that much more money when they send those same Van Heusen shirts and everything else into this country and are sold here at that top premium price, because that name and that label mandates that they can get that price.

The problem here is that we don't have enough control. I do not agree with abolishing the Department of Commerce. There are a lot of activities in the Department of Commerce that are important, including the coordination of anything that they do to encourage exports from U.S. business, because they are really representing U.S. business and they should have somebody in the White House that has a voice for that U.S. business here, especially in those related areas.

Now, if you want to coordinate that with one of those agencies that you consolidate into one U.S. Trade Agency, fine, but I still think that the Department of Commerce is going to need some role in there, and that the Department of Commerce, for all of the other functions it does that are domestic in nature, still needs to be there. And I don't think it is a good idea to abolish it.

But the fact is that I think that some help has to be given, I agree with that, that tries to protect those investments by providing insurance for them so that when they go into governments that are unstable—because governments in most of these countries are unstable that we are trying to help and you don't know what is going to happen.

I will give you a good example. In Chile, you know, AT&T went in there and developed all their networks of telephone systems, and then they nationalized and took it all away from them and they didn't get a penny. They are suing in the Federal courts to try to recoup the loss. There are other situations like that. So I think that we really need to look very closely at what we are doing there in that regard and what we do invest.

But I am like Mr. Rohrabacher, I don't believe that American tax dollars should be used to subsidize businesses that are going to send those products back to the United States to compete with these products, and they are doing it.

Toys "R" Us. Toys "R" Us moved from the United States to Canada. It didn't work out for them in Canada because their labor market wasn't suited to their style of production. They moved to Mexico. That was even worse. And then they moved to Hong Kong.

Now, after all of this movement, they in the last go-around with the Free Trade Agreement decide that, hey, they will move back to Mexico if they make a Free Trade Agreement. Now, look what has happened with that Free Trade Agreement with Mexico with the kinds of corrupt government—immediately after the Free Trade Agreement and the new President took over, there was a collapse of the peso, which they knew was coming before. They knew it was coming when they were entering into this Free Trade Agreement. Meanwhile, they are not honoring the Free Trade Agreement in both ways.

UPS still has to go to the Mexican border and change from their big semi's into the Mexican semi's to deliver their point-of-origin and point-of-delivery in Mexico. The only thing they can operate is a small truck. This was supposed to open it up. Now the Mexican trucks can come across and deliver. That is not free trade and that is not working both ways.

So I think there is a lot of work we need to do, and rather than worry about micromanaging the Department of Commerce and disturbing that balance that is there, we ought to maybe be concentrating on this one bill that Mr. Mica has that will consolidate this and give the power to one person that will report right directly to the President.

I think I talked to you, Mr. Roth, some time ago about the need to do something about our trade and trade agreements and the way we cause trade from our companies with other countries, because we are getting the short end of the stick.

Mr. MANZULLO. Matt, I agree with you. And what your statements all indicate is the fact that there has to be some type of a coordinated policy. You can't do that when it is fractured throughout 19 different agencies.

Let me also add this. We are in a war with the Brits, with the French, the Germans, and the Japanese in the technological revolution going on around the world. Sure, we have infrastructure needs

here in our country but, in terms of subsidizing infrastructure, I think it would be a good investment for us to get involved in building bridges in Vietnam. If anything, we are going to be using American engineers, technology and prowess to export that type of technology. That will help out our trade balance.

The areas that I would like to see the U.S. Government involved in is in areas such as TDA and OPIC. I voted against the Market Promotion Program, and I represent an area that has a heavy agricultural base. Stephenson County is the No. 1 dairy county in the State of Illinois. That is in the district that I represent.

I oppose those types of direct subsidies. But on the other hand, we have to recognize to the extent that we have statistics and technology and the power, the name and the prestige of the U.S. Government available, we have to be actively involved on every front whatsoever.

Now, Vietnam, I realize that there are philosophical problems there. My understanding is that is the eighth largest worldwide market. China has 300 cities in excess of 1 million people. Only 25 percent of those cities have airports. And when the Consular General from China came to Rockford last year, he said it is the goal of the Chinese Government to build 300 airports.

That should make your mind blow up. To think of the extent of the U.S. commerce that can be involved in that, we have to get our trade agencies in order to be on the cutting edge to be able to move in and help China with the infrastructure, not through subsidies.

Mr. ROTH. Mr. Chrysler, were you going to add something?

Mr. CHRYSLER. I was going to invite Matt to join us and help us in our effort certainly to create the Office of Trade and dismantle the Department of Commerce. Less than 4 percent of the Department of Commerce has to do with trade. The major lead role in that is the USTR, and the major dollar component is agriculture with about 74 percent of the trade dollars. In getting that consolidated and certainly from the Department of Commerce standpoint, 60 percent of the Department of Commerce has absolutely nothing to do with commerce. It is kind of like your hall closet where you throw everything that doesn't have anyplace else to go. And it really has become a burden to the American taxpayers, producing very little results.

And as we look at these belt-tightening times, as we look at trying to get our American taxpayers a better bang for their buck, certainly we can save about $8 billion for them by dismantling the Department of Commerce and still do a very effective job in the area that Commerce does help. And I think that is what the American taxpayers are looking for, for all of us here in Congress to do a better job and spend their money a little more wisely.

Mr. MARTINEZ. Just let me respond.

Mr. Chrysler, I have been here a while now and I have dealt with the Department of Commerce before Ron Brown was ever there or anybody else—and he may be the target of this, I don't know—but the fact is that there are agencies within that Department of Commerce that do do a lot of good and I have seen it, especially in the communities like I represent, a great part of L.A., and probably in the district that Mr. Rohrabacher represents, too, there

is a lot of good that has been done that you evidently are not aware of.

I would invite you to join me to have a meeting with the Secretary to show some of those things that have been done in those areas in the way of economic development, in the way of minority development in businesses, and a lot of the advance in the technology and administration which has launched a lot of things.

I think there is a lot there that has to be saved and should be saved. I think as you move this through, you find people, whether it is under that kind of structure that we are talking about now or some other, who want to save those particular projects that are worthwhile saving.

Mr. CHRYSLER. And we have been looking into those and find that less than 25 percent of the Department of Commerce's budget is really spent in an area that really does do some good; 75 percent does not. And I think that is what the American taxpayers are telling us to take a long, hard look at.

Mr. ROTH. Let me just sort of piggyback on what Mr. Rohrabacher and Mr. Martinez have asked. I see this debate coming down to one of three approaches.

Mr. Manzullo, because you are experienced in Small Business and have looked at the chart, in your view, what is the best way to organize these trade functions? One, should we fold them all into the USTR; two, shall we keep the USTR separate and set up a separate trade agency; or three, set up the Department of Trade which includes everything?

Mr. MANZULLO. Toby, I believe the last option is the best. It is extremely important to keep the U.S. Trade Office at a Cabinet-level position. It is absolutely essential not only for the recruitment and retention of high civil service workers but also in terms of overseas prestige. Every major country makes sure that there is a trade representative that sits at the equivalent of a Cabinet level.

Second, maybe I don't share the zeal to "dismantle" a department that some of my Republican colleagues do. But I do share the zeal with Mr. Chrysler to save money and to make our trade promotion activities more beneficial, not only to the taxpayers but also to the companies and individuals that are served.

I think we need one trade organization folded into what would be four functions: first would be the trade promotion, streamlined; second would be the USTR's office; and third would be financing. And, fourth, licensing controls.

So I think we can make it a lot more simplified. Whenever an issue comes up, for example, the Department of Transportation or Department of Energy or EPA get involved in something overseas, they can either borrow an employee or use the expertise available from the Trade Department in order to accommodate that mission. I just think it is going to make things a lot easier for trade in this country.

Mr. ROTH. Congressman Chrysler, how would you respond to the trade functions, and are they badly disorganized? Would you support consolidating these functions into one agency or should that agency be run by the USTR? Should they be kept separate? What is your view on that?

Mr. CHRYSLER. Well, there are 19 different agencies in the Federal Government that currently deal with trade, and what I would see is creating one Office of Trade with a negotiating arm, an export arm, and an import arm. And under the export and import arm there could be the advocacy groups and the financing groups—I think that is what we really need to do in this government, is just create one agency with one head, three different areas of expertise, and certainly again under the export and import arm there would be the licensing requirement.

Mr. ROTH. Well, I want to thank our panel for their excellent testimony and their frank and candid responses to the questions. I think that we just have to answer one question that was brought up by our good friend, Matt Martinez, when he had mentioned why are we doing this.

This is no vendetta. We are doing this because on the campaign trail we Republicans said that our government has gotten too big and the government costs too much. In the past, we have emphasized downsize and we are now following through on that commitment. That is, as I see it, the real underlying philosophy of this particular legislation.

Is that correct, Mr. Chrysler?

Mr. CHRYSLER. That is absolutely right on the money.

Mr. ROTH. Thank you very much.

Mr. BEREUTER. Mr. Chairman, would you yield?

Mr. ROTH. We are joined by Congressman Bereuter. I am sorry. Let me defer to you.

Mr. BEREUTER. I'm sorry to be late. I just returned from my district. I want to commend Mr. Manzullo, Mr. Mica, and Mr. Chrysler for their testimony. I will try to catch up on what has been said and the questions here, and thank you very much for your special interest.

I look forward to the next two panels as well and, Mr. Chairman, I ask unanimous consent that my opening statement be made a part of the record.

Mr. ROTH. Without objection.

[The prepared statement of Mr. Bereuter appears in the appendix.]

Mr. BEREUTER. And I yield back.

Mr. ROTH. It is good to have you with us this morning. Mr. Bereuter.

Let me call our next panel of three very distinguished witnesses: Bill Brock, Clayton Yeutter, and Donald Bonker. I can't think of three more able, experienced and insightful people to advise us on what we should do in this situation.

Bill Brock is a friend of mine. He was one of the first people to come with me to Green Bay when we had our meeting on the Export Conference. He served in the House and Senate and with distinction as President Reagan's Trade Representative and Secretary of Labor. He now heads his own firm as an international trade consultant and he has talked a great deal about these issues and how to reorganize this government. It is great to have him with us.

Mr. ROTH. Clayton Yeutter, who has also been with us at our exports conference, is here with us this morning. He has served as Agriculture Secretary and it is great to have him up in Wisconsin

with our great dairy farmers. He has been a Trade Representative and counselor to the President in the Reagan and Bush Administrations, and he knows more about these issues than anyone I can think of, and Don Bonker, who also, incidentally, was in Appleton, Wisconsin, with Bob Dole for our trade conference a number of years ago, is here as well. He served in the House for 7 years and he was chairman of this subcommittee. I was privileged to serve with him. He now manages a leading international business consultant firm.

Don, it is great to have you with us here this morning. I think what we will do, like in the last panel, we will ask the witnesses to give us their testimony, then we will move to the questions. We will start with Mr. Bill Brock.

STATEMENT OF HONORABLE WILLIAM BROCK, FORMER UNITED STATES SENATOR, U.S. TRADE REPRESENTATIVE AND SECRETARY OF LABOR

Mr. BROCK. Thank you, Mr. Chairman. I am going to summarize my prepared text, but let me begin by expressing my gratitude for your willingness to take on a tough subject. It isn't easy. Government reorganization draws more yawns per hour than almost any subject in Washington, and yet it is important, it is really important, so I appreciate the fact that you are doing it. I am going to try to do two or three things today.

First, I want to talk about trying to put this conversation in a larger context of government re-organization; second, to discuss the department; third, look at it in the context of trade policy, and last, I would like to make a suggestion about the economic functioning of government, and I want to just kick off that by responding before I get to this subject of reorganization to something that was said earlier today.

The question was asked by an earlier panel member, "Is what we are doing working?" The answer given was obviously no. And then the conversation sounded as if what we are doing is not working because of the trade organization or the trade policy of government, and I want to vigorously disagree. I think that is fundamentally wrong.

It is important that we organize government to be as effective as we can, but it is also important to understand the underlying predicate of our competitive strength in the world. We are not competitive in some areas. We have a trade deficit primarily because we don't save enough money in this country because of our tax policy and our regulatory policy and the intervention of government between market forces that would otherwise operate with greater efficiency.

We don't educate our children adequately, and until we do, we are not going to have a work force that is able to compete on the basis of cognitive skills instead of muscles. So I want to just lay that out as a beginning predicate. This conversation is important, but trade policy is not going to save this country from a trade deficit unless we deal with tax reform, regulatory reform, and education reform, because those are fundamentals.

I have testified earlier before another committee on merging the Departments of Education and Labor. I would say essentially the

same thing today, that I would say there. It is difficult to look at organizing or changing the character or eliminating one department unless you look at the whole context of government.

Back in the early days of President Nixon, back in the early 1970's, we were looking at the reorganization of government along functional lines, the substantial reduction in Cabinet level departments, not just to save money but to make sure that we were not trying to create a government that was not organized under constituency groups, but rather on functioning.

Today we have the Department of Commerce for business, the Department of Education for Educators, the Department of Agriculture for agriculture, Veterans Affairs for veterans. Is that really the way you should organize a government today in a world in which all business is having to move to a decentralized process and moving to a horizontal management? I don't think so, so I would first note my dissent with trying to reorganize on the basis of one department at a time. I know the mandates you have, Mr. Chairman, and I am going to respond to that, but I don't think it is wise to stop with just looking at it in this narrow sense.

Second, let me look at this Department of Commerce as it exists. It is a hodgepodge. It is the catch place for everything that people didn't know where else to put a particular approach or a program. There is no reason you can't spin off organizations like NOAA, the statistical functions under Census, agencies like that. If you do that, then you really are diminished down to the trade function. If you get to the trade function, I want to draw back from Commerce a minute and look at the trade policy as it is described in law under the act that was passed in 1962 and recall for you why we created the department, the shop, not a department, the U.S. Trade Office, the U.S. Trade Representative.

We did it because Treasury was running some aspects of trade policy, State was running others. Everybody had a hand in the thing. Nobody was coordinating, and it was not well done. The reason the Congress decided to create a trade policy is because we, the Congress, have a constitutional prerogative.

Congress does control trade, it doesn't come under the executive. And to give it to the executive you have to delegate it to somebody. If you delegate it to a department, you diminish it. What the Congress decided to do was to put it in the Office of the President at Cabinet level, at least later on at Cabinet level, so that the policy coordination could span across individual Cabinets and Cabinet departments and not be subject to the bias or the prejudice or the focus of one of those departments. I think that logic applies here.

If you are going to reorganize the trade function, I would urge you to do so by keeping it in the Office of the President. You want to assign the trade functions present in the Commerce Department to the USTR, fine. I question that you are not going to get to somewhat of a cumbersome operation, but I don't know how else to do it. I would argue strongly that having it created as a department would tend to create the sort of constituency-based organization we have in Commerce today. I don't think that serves the national interest well.

Mr. ROTH. Mr. Brock, would you pull that mike just a little bit closer? It would be easier to hear you. It is voice-activated. Thank you.

Mr. BROCK. Let me try to wrap up very quickly by noting, and emphasizing what I said just a moment ago, about the way business is reorganizing. American enterprise today is the most productive in the world. It is the most competitive in the world.

Its burden is imposed more by Washington than by overseas competitors. We have got to understand that. If we do and if we think about what we really need in government and don't have today, it is a shop, an agency, a department that would advocate the cause of American competitiveness in a future-oriented sense. The problem of departments is they tend to get captured by constituency groups, and those constituency groups are the people who have, therefore they represent what was, not what can be.

I would love to see in the Office of the President or in a department a group, an organization which would argue for the competitive energy of this society, which means for a tax policy that was competitive-based, not socially policy-based. A tax policy that understood that we have the dumbest tax system in the world in terms of international competition. It is absolutely irrational.

It would argue for deregulation because only by freeing up the competitive energy of the marketplace are we going to be competitive overseas. If we can have a government that looked at the competitive strengths of this country not in terms of controlling them, but freeing them, I think you could get a very exciting process going.

Whether you create a Department of Science and Technology or just have a place in the department, in the Office of the President that focused on freeing up the energy of this country, I think it would be an extraordinary contribution. We are linked economically, we are linked electronically. The pace of change is accelerating. Government is going to be a hazard to our goals as a country, not a contributor.

The subsidies we provide reduce our competitive strength, they raise taxes, but they also make us dependent on government. We ought to be getting rid of those things. Do that, free this country up.

As I said in my text, we can't protect, but we can prepare. Focus on education, focus on fundamentals like tax reform and regulatory reform, and let this country compete, and we would be eating everybody for lunch. It is a much better way to go than what we are doing right now.

[The prepared statement of Mr. Brock appears in the appendix.]

Mr. ROTH. Thank you very much, Mr. Secretary.

STATEMENT OF CLAYTON YEUTTER, FORMER U.S. TRADE REPRESENTATIVE AND SECRETARY OF AGRICULTURE

Mr. YEUTTER. Thank you, Mr. Chairman. It is nice to be here this morning, and a special pleasure to have my own Congressman, Doug Bereuter, joining in as well.

I will summarize my prepared comments and seek to supplement what Ambassador Brock has had to say. I would, first of all, second his fundamental conclusion, that reorganizing the trade functions

of the government is not going to appreciably alter the magnitude of our trade deficit.

If we want to appreciably alter our trade deficit, that has to be done through macroeconomic policies—fiscal, monetary, tax, regulatory and even educational policies. At the same time, as Ambassador Brock recognizes, we can do a much better job of organizing the trade functions of the U.S. Government than we do today.

Trade reorganization is a worthwhile objective for the Congress. As you know, Mr. Chairman, this subject has been under discussion for years and years, but we have never gotten far with the effort. Typically, we have overreached a bit, trying too do too much in the way of reorganization, and things have gotten bogged down.

This has usually occurred through jurisdictional conflicts among congressional committees, a matter that you all are going to have to sort out if anything is going to happen on this subject in 1995 (in contrast to what hasn't happened in prior years).

Before commenting on what we might do in trade organization, Mr. Chairman, I would like to provide a bit of historical perspective. In economic terms what we have focused on in the United States over the last 200 years has related primarily to developing this great domestic economy of ours—our wonderful resources, human and physical that we have between the Atlantic and the Pacific, and that effort has served our country well.

But I submit to you, Mr. Chairman, that over the next 200 years we will have to devote a lot more attention to matters outside the borders of the United States than inside, as important as the latter will be. Why? Because far more of our challenges and opportunities will lie outside our borders rather than inside. That is one of the reasons why we need to effectively organize government. Our goal must be to facilitate and foster that "beyond the borders" effort, and in particular the effort to expand American exports, whether they be of goods or services. Now what does that mean in terms of trade reorganization?

First of all, I would suggest that whatever you do, for heaven's sakes, retain Cabinet status for whomever is in charge of this function within the U.S. Government. I am a proponent of a Department of Trade (or whatever you wish to call it), in contrast to Ambassador Brock's views, because I believe we need to give this function as much clout as we possibly can, domestically vis-a-vis other departments of government and internationally vis-a-vis other trade ministries. All major trade ministries in the world are headed by a Cabinet member. (They are typically called ministers rather than secretaries.) In my judgment U.S. trade will gain a bit of extra clout, at least in terms of perception which sometimes is as important as reality, by having it served by a Cabinet department.

Mr. Chairman, I know this is a problem for you because you are trying to reduce the number of Cabinet departments, but frankly I hope you don't get too hung up on that objective. Although it may be conceptually important, I really think what the people of America are most interested in is whether or not government runs well.

Most Americans, unless they stop and add up the number of departments, have no idea whether the number is 5, 10, 15 or 20. So let's organize the government properly; I agree with Ambassador Brock that we needdto focus on more than just trade as that is

done. But if one is to re-organize our trade functions, I would start with the frontline agencies which do battle around the world, with USTR being first and foremost in that group.

I don't see how you can have an effective Department of Trade or an effective Office of International Trade in the United States unless USTR is a part thereof.

Now, you will hear the valid argument that it would be a mistake to lose the lean, mean characteristics, and what I would call the strike force mentality of the USTR office, and its great prestige around the world by placing it in a Department of Trade. But I see no reason for that to occur.

A properly designed trade re-organization should be able to preserve those laudable USTR characteristics within a Department of Trade. I would add the Eximbank and OPIC as other "front line entities" in the new department, if you choose not to privatize OPIC. I personally believe that one could privatize that function and, if so, whatever it does today can be done in the private sector.

If the Congress decides not to privatize OPIC, then it ought to be part of a trade department in the U.S. Government. Eximbank would, of course, be a critical part of our frontline activity.

Then we must have a "delivery organization" around the world to support USTR, Eximbank, and OPIC. That entity, now in Commerce, is called the U.S. and Foreign Commercial Service. I would eliminate the domestic elements of this agency, for that will save money and those functions can be performed by State governments or the private sector. I would retain the "foreign" part of the agency and place it within the new Trade Department.

Then, in addition to the frontline and delivery organizations, Mr. Chairman, we need certain support entities within a Trade Department here in Washington, DC if it is to perform well.

From where shall they come, how large shall they be, and can they be made effective? You already have proposals before you, by Congressman Mica on the House side and Senator Roth on the Senate side, that put most of the essential boxes together. I am not terribly concerned about how you arrange those boxes; that can be done in a variety of ways.

I am more concerned about making sure we have the boxes that are essential. In that group I would include what is now the Bureau of Export Administration, which has export licensing and enforcement functions. I would also include the Import Administration personnel who administer our anti-dumping and countervailing duty laws. Some would say that these functions should not be part of a trade department because of the difficult tradeoffs between negotiating open markets and the more protective activities of import administration. I do not agree.

All departments of government have those kinds of tradeoffs. The State Department does every day of the week. So does the Agriculture, a department with which I am familiar. So do other trade ministries around the world.

Then I would put a "knowledge base" in this department, to support USTR, and perhaps the Eximbank as well. Some segments of the International Trade Administration in Commerce would fit that need, as might some of the staff of the U.S. International Trade Commission. There hasn't been much discussion of that in the con-

text of trade reorganization, but as you know, Mr. Chairman, we have given the USITC a lot of functions through the years that are unrelated to its fundamental task of dealing with safeguard actions under Section 201 of the Trade Act.

Many of these functions, it seems to me, could either be eliminated, saving tax dollars, or could be moved into a trade department to become a part of the knowledge base and support base for that department.

I have heard arguments by Ambassador Kantor and others as to why a trade department isn't a good idea. I have already commented on having import administration in a trade department and the tradeoffs that are involved in doing so. Those tradeoffs exist today under the present structure, so that is not a relevant argument against consolidation.

As to the question of USTR being an honest broker, there are all kinds of ways to handle the interagency (brokerage) function. I don't see that as a problem. Although Ambassador Brock makes the point that placing interagency coordination within the White House complex has some particular advantages, it can be done outside that complex too.

We had the Secretary of the Treasury chairing what we used to call the Economic Policy Council for a good number of years, and that worked well, even though Treasury is outside the White house.

Putting export promotion in with trade negotiating functions is also objectionable to some, but that is done in lots of trade ministries around the world. I don't see that that is a problem at all.

Ambassador Kantor said he wouldn't have time to do this job if he were Secretary of Trade rather than USTR. I don't agree with that either. Of course, he is busy. Ambassador Brock and I were mighty busy when we were USTRs, too. But executive management is a question of skill and style, and prioritization of time. So that is not a valid argument against a trade department either.

All in all, it seems to me that there is merit in having a powerful, effective trade department in the United States, one that can compete with any trade ministry anywhere in the world. If I were in the Congress that is what I would try to create during this propitious time to do so. Thank you, Mr. Chairman.

[The prepared statement of Mr. Yeutter appears in the appendix.]

Mr. ROTH. Thank you very much, Secretary Yeutter, for your comments. We are going to ask Don Bonker to present us his testimony, and then we will go to some questions.

Don, it is great to have you here back in this committee room where you were chairman for so many years.

STATEMENT OF DONALD BONKER, FORMER CONGRESSMAN AND CHAIRMAN, SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY AND TRADE, HOUSE COMMITTEE ON FOREIGN AFFAIRS

Mr. BONKER. Thank you, Mr. Chairman, and thank you for the invitation to be here this morning. I believe that it has been 12 years now since I sat as chairman of this committee and conducted hearings on the subject of trade reorganization. Indeed, at that

time you and Congressman Bereuter were the two key people on this committee who demonstrated a lot of leadership then, and I am certain are doing so today, and I am pleased to see, Mr. Chairman, that you are now presiding and that you will play a major role on how Congress attempts to deal with this very important issue.

You will recall that in 1983 this debate was sparked within the Reagan Administration by a colleague of these two gentlemen, Malcolm Baldrige, whom I believe is one of the best Secretaries of Commerce this Nation has ever had. It was his crusade to bring this issue, which he called the Department of International Trade and Industry, to the public's attention. It parallels a lot of what we have been discussing here today.

Senator Roth also introduced a trade reorganization plan, which became known as the Roth-Bonker-Roth bill. That was the subject of our hearings at the time but, unfortunately, the issue seemed to disappear with the tragic death of Secretary Baldrige. It was also unlikely that a Democratic Congress, with its myriad of jurisdictions and jealousies, would ever act favorably upon such an ambitious plan, so it went nowhere.

To those who now advocate reorganization of the government's trade functions, I would like to say that there are three distinct and separate functions that I hope will be respected in this debate. First is in the area of trade negotiations. We have had two of the preeminent people testify on that subject, but this is a unique office in the White House, and indeed must be so because of the politics of the issue and the necessary brokering that takes place in determining the U.S. position of trade negotiations.

Second, trade promotion. This is an area that is administered by the Commerce Department, the State Department and the Agriculture Department. True, it is possible to reshuffle these programs and agencies, but we should not undermine those that are performing well.

Last, what has been referred to as import administration. How do we deal with countries that dump or subsidize to a point that brings injury to U.S. companies and an inability to compete even in our own domestic market? Now, to randomly disperse these responsibilities without regard to their impact on U.S. trade policy could jeopardize America's competitive position at a time when we are being challenged as never before.

Mr. Chairman, there is a principle I would like to pass on—that we not try to fix something that isn't broken. We do have good performers in the executive branch, and we should respect and support those programs and those agencies that are doing well. I refer specifically to USTR and that is due in large measure because of the leadership of the two former USTR representatives who are here. I would also put Bob Strauss and Mickey Kantor in that category. They have been outstanding in their respective times in that position and I think have helped to advance America's trade position in international negotiations.

OPIC and the Trade and Development Agency of the State Department have been the unsung heroes of the U.S. trade promotion and programs. At one time I thought we should put those two agencies in the Department of Commerce because of the principle

of consolidating all trade promotion programs. That would have been a great mistake 12 years ago, and I think it would be a mistake today.

Last, the Eximbank. I remember 10 years ago it was liberal Democrats who were trying to terminate the Eximbank and had they succeeded, I think our trade deficit would be much higher today.

Now, Mr. Chairman, you have been a champion of export trade, and you have demonstrated that commitment by way of your tenure on this committee, your export conferences in your district is one of the best events of this kind anywhere in the country. I hope you will do everything in your power to convince your colleagues to not tamper with those agencies and programs referred to above which are doing well to keep America strong and competitive in international markets.

Now, I would like to say just a few things about the Department of Commerce. Indeed, NOAA and some of the other functions in that department should be removed to make it possible for that department to focus on matters that are far more important. The Bureau of Export Administration is a relic of the cold war days, but export licensing is still needed for proliferation and foreign policy purposes. However, it remains a major impediment to U.S. high tech exporters because of shared jurisdiction and the intense rivalry among departments that have that responsibility.

The late Senator John Heinz, I think, was right on target. An independent agency with a board comprised of the Commerce Department, State Department, DOD, maybe the National Security Agency, should develop the policy, but have an appointed person oversee and administer the agency.

Now, last, Commerce Department trade programs. When I was chairman of this committee I was really frustrated with how the Commerce Department administered these programs, and I think it serves today as a classic example of why certain programs do not work. For whatever reason, these programs have been pretty ineffective, except for Secretary Brown's high profile Buy America promotional campaigns. At the ground level the Department of Commerce still is of negligible value to small and midsized companies who do need assistance at times, especially when they are competing with foreign companies that enjoy government assistance.

Now, why is this so? Why are OPIC and TDA so effective, but the programs of the Department of Commerce are not effective? I think it is because Commerce is too large. It is too institutionalized. It is too bureaucratized. It lacks accountability. When the Secretaries used to appear before this committee I would pose the question—you get $166 million, Mr. Chairman, for trade promotion. Where does it go? How effective are these export programs?

When TDA and OPIC came before this committee we saw the track record. TDA did far more with a $3 million budget—it is now at about $35 million—than the Commerce Department did with $166 million.

When I left Congress I formed an export trading company in Seattle and have been actively engaged in trade promotion in the private sector. Never once have I urged a client or a company to go to the Commerce Department. So the question I pose to this com-

mittee is this. Are we going to make American export trade programs more effective by putting them into a super trade agency? I think not. I think the answer is to keep them lean, to keep them sharply focused, and to keep them accountable to the Congress, specifically to the committees that have the jurisdiction.

Mr. Chairman, in summary, I recommend the following: That we not eliminate the Department of Commerce; but drastically overhaul its functional responsibilities in the trade area; that we keep USTR an independent entity, especially apart from trade promotion and trade mitigation functions; that we avoid setting up a super trade department.

I might add that not much has been said about Agriculture, but we haven't heard from Mr. Bereuter, either. Remember the big issue in this earlier debate was how do you factor in Agriculture. If the USTR is to balance the competing interests within the government, Agriculture must have a strong voice. And if you put trade promotion in the same department as trade negotiation, Agriculture is going to be the loser.

Finally, I recommend supporting Senator Roth's new draft proposal that calls for setting up a commission that would offer recommendations by June 1, 1996, on how to restructure the executive branch. Thank you, Mr. Chairman.

Mr. ROTH. Well, thank you, Mr. Bonker. I want to thank our three panelists this morning for their excellent testimony. I can't remember when we had better testimony than we have had here this morning. I think one of the reasons is because you have actually lived through this legislation, and that is why it is so important to have you here. You have gone through this. You bring a real historical perspective.

I am going to call on the Members here in the order of their arrival. Let me ask Don Bonker this question. The Chrysler bill, and I wish Mr. Chrysler would have a chance to stay, is something that is going to take place because of a political decision that has been made. We are going to take up the Chrysler bill. We are going to have a markup on September 12th.

The reason I am asking you this question, is because you and I worked on this for so many years. In this bill, everything that deals with export control and licensing will fall under the jurisdiction of the State Department. What is your opinion?

Mr. BONKER. Well, my opinion is rather mixed because the two agencies that do best are in the State Department, but I think again it is because they are small and they are focused. I think if you have to transfer them somewhere, I would pick the one or two that have a good track record and put them over there and make them accountable to this committee, as they would be because of the jurisdiction, but my biggest fear is that we develop a super department and allow the institutionalization of these programs.

I think that is what has happened in Commerce. Commerce has good programs, good people, but somehow it is not getting the job done.

Mr. ROTH. Thank you.

Mr. Yeutter, if we do have a Department of Trade, who should administer the Section 301 trade sanctions, the new Secretary or the USTR?

Mr. YEUTTER. Ultimately, everything that would be dealt with in the trade arena ought to come under the aegis of the Secretary. In other words, like any other department, whether it be Treasury or State or Agriculture, the Secretary is ultimately responsible. He or she would be the "trade minister" and would be the final participant in section 301 negotiations or any others that go to the ministerial level. But if USTR is part of a trade department, and if Congress maintains its semi-autonomy within the department, we will have one or more deputy USTRs with ambassadorial ranking as we do today. One of those deputies will be responsible for much of the negotiations, at subcabinet level, involving section 301 and other issues. I don't see that situation changing from its present arrangement except that we would have a Secretary of Trade rather than a USTR at the top of that heap.

Mr. ROTH. I like having you three on the panel to talk to us about this because you understand this. Mr. Yeutter, when you gave your testimony, I had to chuckle to myself because you mentioned the House committees. Ways and Means is definitely going to want USTR as a separate agency. Well, how is that going to work if we keep USTR separate? What kind of advice can you give us? This is going to be one of the nubs of this issue here.

Mr. YEUTTER. Well, obviously that is going to alter congressional jurisdiction, which means that you will quickly run into vested interests in the status quo. Any changes that you make in trade reorganization are going to run into the same thing within the executive branch, and even in the private sector.

What I hope Congress will do is ask: "How should we do this to best serve the U.S. business community and the American public over the next half century or so?"

Mr. ROTH. Mr. Brock, maybe I could ask you for your comments also.

Mr. BROCK. Well, Clayton Yeutter is one of the world's great people, and I have enormous respect for him, even when he is thoroughly wrong, as he is on this subject. I never lacked the authority to act. I never lacked prestige. I was representing the United States. I didn't have to worry about prestige.

We are the heavy in the world. We are strong. We can do most anything we want to do, and it isn't a matter of titles. It is a matter of who we reflect and who we represent. The thought that we would take an inept department and just simply recreate it doesn't make sense to me, so I think putting USTR, keeping it in the Office of the President is important because I think that makes it a super Cabinet, not a diminished Cabinet position, and it does give it the authority as the law does to coordinate and oversee trade policy. That is important that that be in the Office of the President because that is the one office in the whole executive branch that really does reflect the broad panoply of the American people. But what bothers me I guess more than anything else, when you create a department that is based on constituencies, and that is what this department would be, it will be based on those groups who have something now who want to keep it.

The potential for this to become a department of protection is extraordinary, and I don't think that works. I can't imagine this Congress not reducing the number of departments and I think that is

one good way to do it is to do away with Commerce, keep USTR, give it those supportive mechanisms that will enhance its ability to negotiate, and you have done the job.

Mr. YEUTTER. May I have 30 seconds of rebuttal?

Mr. ROTH. Yes. We would ask Mr. Yeutter to respond for 30 seconds.

Mr. YEUTTER. The mutual admiration society goes both ways because I have the highest regard for Ambassador Brock, too. I would simply say that whether or not this turns out to be an effective department depends very much on the leadership it is given. With respect to the constituency arguments, we have been able to overcome those in Treasury, and the finance ministry of this government. If we can do it in their ministry, why cannot we do essentially the same thing in a trade ministry?

Finally, for a long time, as USTR, I had the same viewpoint as Ambassador Brock is articulating today. It was only toward the end of my tenure, Mr. Chairman, that I changed my mind and concluded we would be better off with a trade department. Bob Strauss incidentally went through a similar evaluation and came to a similar conclusion, as we discussed over lunch a few years ago. We both concluded then that even though it wasn't going to happen soon, if we had our druthers, we would rather have a trade department than only a USTR office.

Mr. ROTH. Thank you very much. We are going to move on in order of arrival. I am going to ask Mr. Manzullo if he has any questions. He was here first.

Mr. MANZULLO. One intriguing question is, and I am not sure who brought it up, was why it would be disastrous to put TDA into the Department of Commerce. Was that you, Secretary Brock, who made that statement?

Mr. BROCK. That was Don Bonker.

Mr. MANZULLO. Congressman Bonker?

Mr. BONKER. Yes, and the question?

Mr. MANZULLO. The question was why would it be improper or unwise to put TDA in with the Department of Commerce?

Mr. BONKER. The Trade Development Agency?

Mr. MANZULLO. That is correct.

Mr. BONKER. Yes, because when I chaired this committee I had jurisdiction over all these export trade agencies, and I was amazed at the success and the effectiveness of TDA, I think because it enjoyed some independence within the State Department. It used to be part of AID, and this committee more or less removed it from the Agency for International Development to give it a little more insulation so it could be more entrepreneurial, and it is one of the stellar performers in the government.

If you put that over in the Commerce Department, I think it would get lost in the bowels of the—I am trying to figure out what is wrong at Commerce because I like Commerce—but it is so large and it is so institutional and there are so many layers that I don't think the agency could function with the same freedom and effectiveness that it now enjoys at State.

Mr. MANZULLO. Maybe that should be the basis for a complete reorganization of any trade function. Maybe all we need is OPIC and TDA and nobody else.

Mr. BONKER. Well, given all the work I have had in the private sector it comes down to three—OPIC, TDA, and the Eximbank.

Mr. MANZULLO. You said, Congressman, that in your new life after Congress as a consultant in international trade that you don't refer any of your clients to the Department of Commerce. Could you give us some real live examples that explain why you don't do that?

Mr. BONKER. Well, because in the private sector you have got to come through with results, and my experience has been that given the particular needs of that client, whether they needed a feasibility study on a runway in Romania or a technical symposium where they could display what their capabilities are to a foreign buyer or if they needed to look at foreign investment possibilities with OPIC, they are very specific mandates that I think fit well within what small and midsized companies need today to be competitive. But when it comes to the Commerce Department I know the Foreign Commercial Service does a very good job in the embassies, and we need that because other countries do a lot more to support their companies. One of the best things this Congress did was to take the Foreign Commercial Service out of the State Department in this case and put it in the Commerce Department because they went out and hired business people to assume these positions rather than foreign service officers who came up with a different set of values, if you will. So the Foreign Commercial Service, I think, should remain, but the Domestic Foreign Commercial Service I don't think offers much value.

It is just that they haven't been able to develop the programs that have value to the companies who need government assistance.

Mr. MANZULLO. So if you don't turn to the Department of Commerce, where do you turn to for help for your clients?

Mr. BONKER. Again, depending on its need, if it is exporting products, mostly TDA, if it is a country where TDA has eligibility to provide assistance. If it is investment, then it is OPIC. If it is loan guarantees to support the export of products and services, then it is the Eximbank.

You see, each one has a clear mandate that is easy for companies to understand, but when we come to the Department of Commerce, where is the mandate other than the Foreign Commercial Service? Where is the mandate? This committee adopted the Export Trading Company Act. Remember that, Toby?

Mr. ROTH. Yes.

Mr. BONKER. President Reagan said the Export Trading Company Act would revolutionize exports for America. For the first time small and midsized companies could collaborate without worry of antitrust suits to collectively market their goods. It has been a failure. Now, I don't know if it is the concept or it is the Commerce Department, but the program has never gotten off the ground.

Mr. BROCK. Can I just respond? Why do we need all these things? What is wrong with the marketplace? When you say where does somebody go? Why don't you go to Chase Manhattan Bank or Bank of America or one of our support firms that do extraordinary consulting around the world for American business? Why is it that somebody has to come to Washington for help to compete inter-

nationally? I think you can eliminate these functions and be well served.

Mr. MANZULLO. One of the hearings that we are going to have in our Small Business Committee is going to be examining private sector U.S. export assistance. Dun & Bradstreet has a service plus there is Bryant College in Rhode Island that have exhaustive computer banks so that on a fee basis people who wish to export have the ability to access markets through those data bases.

Have any of you gentlemen been familiar with those types of facilities? Dun & Bradstreet also? Mr. Bonker, have you used any of those facilities?

Mr. BONKER. I have not, and I know that the Commerce Department wanted to establish regional export assistance centers, but I don't think it ever got off the ground.

Mr. MANZULLO. They did. There are three or four now, one of which is in Chicago.

Mr. BROCK. We have had no experience with them in our firm. The one area where I don't think we paid enough attention or recognition to some good work that is going on, and Don mentioned it is the Foreign Commercial Service. The people we have hired out of business to go into embassies overseas are now doing a much better job than we were doing 10 years ago. They are providing information, data, market analysis. Those are the things that people really can use, but coming to Washington for some form of subsidy is, I think, a waste of time.

Mr. YEUTTER. I would agree with that. Let me just supplement that by saying I refer people to the Foreign Commercial Service around the world regularly, as I do to the Foreign Agriculture Service, because those folks often can be very, very helpful. Also, I sit on the board of a number of companies that are major exporters from this country. Basically those folks can do this job on their own. They don't really need government help at all. It is only the small- and medium-sized companies that may be able to use government help, but only if it is high quality help. As these gentlemen have been saying to you, the problem is that a lot of what we have tried to do with small- and medium-sized firms just hasn't been very good, hasn't been very successful.

Mr. ROTH. Thank you, Mr. Manzullo. We are going to ask Mr. Martinez for his questions. Mr. Bonker, you had mentioned in an answer that in the private sector you have to find results, and that is what we are trying to get the government to do, Mr. Martinez.

Mr. MARTINEZ. Thank you, Mr. Chairman. Really, I don't know if I have that many questions. I would say, and I would echo what the Chairman has said, that you have provided us with a lot of insight from your past experience and your present thought.

The one thing that I am concerned about that you touched on here at the end, and Mr. Manzullo touched on here is the ability of small- and middle-sized businesses, like in my district to somehow find a way to export their products because I see them competing here on a local level with foreign products for that market that is here without ever thinking about foreign markets extending, and where the foreign commercial services are doing probably a fine job in the embassies overseas there, there is not a link between them

and the information and the data base they find back to those local communities. What is the answer?

Mr. YEUTTER. If I may take one crack at that, I think most small- and medium-sized firms, Mr. Martinez, will get more help from State government programs than they will from the U.S. Government. Most States today that have major economies have offices in many countries around the world. Those offices are there to help exporters from their States, and many States will even provide export assistance at home if it is requested. So to the degree you need government help, it is better off coming from the State level than from the Federal level in most cases.

Whether the private sector is going to fill this need remains to be seen. Perhaps it can with some of the new technology of today. In other words, maybe somebody can make a buck by helping those small- and medium-sized firms.

Mr. MARTINEZ. Here again in the State of California we have exactly what you are talking about. In fact, jointly with Taiwan they opened an office in the International Trade Office, a building in Taiwan. Still, that only covers that one country, and it may be that the State is developed with larger trading partners where there are viable markets for, say like California trades a lot of wine, had a rough time breaking into the Taiwan wine market, but they did and they export a lot of wine, and that is good for the people that have vineyards and for the people that make wine, but the fact is that there are a lot of little widgets being made in my district that probably could be sold overseas to some other countries, to some of these smaller underdeveloped countries that need some of these products.

The only way they are ever going to be able to do that is by some link being created between those offices of Foreign Commercial Service and the offices maybe through congressional offices, but somehow through an agency like Commerce, and I always imagine that Commerce would be a good place to do that since Commerce is supposed to be promoting U.S. business.

Mr. Bonker.

Mr. BONKER. You are on target, but the point I have tried to make is that for whatever reason and however good the intentions, the Commerce Department has been unable to fashion programs, unlike the Foreign Agriculture Service which has been highly successful to help the smaller people compete.

To the question that Senator Brock raised just a minute ago about why should we even have these programs, I think for basically two reasons. One is that we want to level the playing field, and insofar as our competitors, Japan, France, and others do help their companies compete. Often that is an added advantage or that is an advantage that makes it difficult for our people to stay in that international market, and we should intensify our negotiations to make sure other countries don't subsidize or support their industries and give them an unfair advantage.

Second, I think we have gone through a transition here. In the 1980's when the trade deficit all of a sudden was upon us, it was soaring. There was a perceived inability of U.S. companies to compete. We were getting our socks knocked off by the likes of Taiwan and Korea, and there is a great rallying call, if you will, that land-

ed right here in the halls of Congress on how can we help make our companies more competitive. But hopefully we are now beyond that.

That was a 10-year period to more or less help facilitate U.S. companies engaging international markets, but it shouldn't be a permanent phenomenon, just so long as we can reduce the unfairness that exists out there and help our companies get better established in these markets.

Mr. MARTINEZ. I just want to say the thing that you focused on, Senator Brock, tax reform and regulatory reform, I think, are important. I find a lot of businesses in my area being stifled by burdensome taxes and licensing and requirements with OSHA and the Air Quality Board and everything else that make it impossible even to compete here, much less compete with some product from abroad, so I think that is part of this whole equation that I don't think we have concentrated on prior to this.

I hope upon your advice we could start concentrating this whole scheme of things with all of the advice that you all have given us. I think your testimony has been outstanding. It has been informative to me and I hope it has been informative to the rest of the Members. As we move forward, I would almost want to substitute you for some of the Members up here.

Mr. ROTH. Easy, easy.

Mr. BONKER. I have been there. I'm happier where I am.

Mr. YEUTTER. I don't think you are getting any volunteers from here.

Mr. BROCK. It is like the man who has been run out of town on a rail who said, "If it weren't for the honor of the thing, I would just as soon walk."

Mr. ROHRABACHER. They had their turn, now it is our turn.

Thank you very much, Mr. Yeutter. I think that your comment on privatizing OPIC went to the heart of the issue that I was focusing on, and it is something I am going to be seriously considering and looking at, and I would appreciate your guidance in that.

Mr. YEUTTER. OK.

Mr. ROHRABACHER. Mr. Brock, why don't we go to the marketplace. I think what has happened is that American business has become involved or encompassed in a—what is the word I am looking for? Anyway, there seems to be a welfare mentality, the same way it is when you put an individual who is a hard-working person on a guaranteed income from the government, you destroy that individual's incentive and you destroy the individual ultimately, and it seems to me that we have been taking on the risk for American business and doing business overseas, and we have been taking on that risk so much—American business feels today that they can't invest overseas and they can't get involved overseas unless it deals with the government with some sort of government guarantee or at least a government subsidy of the interest on the loans that they are receiving in order to put the business together.

So I think we have got a welfare mentality to deal with and unless we start dealing with that we are going to get our pants beat off of us by foreign competition, which doesn't have that same type of welfare mentality.

Mr. YEUTTER. Can I make just one quick comment following up on that, Mr. Rohrabacher? We do need to be very careful that we do not create that kind of mentality in American business. There is no reason for that because, as Ambassador Brock suggested earlier, we are the most competitive Nation in the world today—by far, in many cases.

American businesses don't need that kind of help. I sit on boards of companies that have a lot of investment in other countries, but which are also selling almost all of their product outside the borders of the United States. They aren't sending it back, creating the kind of problem you were posing. They are moving it into world markets, doing so very effectively, and doing it without any help from the U.S. Government. I also sit on the boards of some companies that are receiving help through this administration's industrial policy. They are using taxpayers' money simply because it is available to them, and one cannot blame them for taking advantage of such programs. But this does constitute corporate welfare, for these companies would still be very competitive without such help.

Mr. ROHRABACHER. Mr. Brock, did you have a comment on it?

Mr. BROCK. Take a chainsaw to it. I really do not understand why we continue to subsidize American enterprise. They are the best in the world, they are the most productive. We have the most productive work force in the world. We don't need it. I made an exception in my statement on a temporary basis, and it is a reluctant exception for Eximbank because I think the only way you are going to negotiate an elimination of that practice in other countries is by having an ability to meet, but I would not allow that to be done unless it were just to meet the competitive subsidy of another country and why did we create things like the World Trade Organization?

The whole purpose of that is to get rid of these subsidies. We can't be hypocrites. Let's use the organization, go after the unfair trade practice, eliminate it, and then compete without any welfare at all.

Mr. ROHRABACHER. Often, as you know, when something starts out with a specific purpose, bureaucracy and the special interest groups get involved and you end up not meeting that purpose but instead it becomes a permanent fixture.

I think your points early on about instead of having a subsidy, providing subsidy for American businesses to do business overseas, that we instead focus on making sure our businesses are competitive through the right tax policies, regulatory policies, et cetera.

Mr. BROCK. Absolutely.

Mr. ROHRABACHER. We can do more good by that, and I noted that in your testimony and agree with it totally.

Mr. BROCK. All day long.

Mr. ROHRABACHER. One last thing, Mr. Bonker, just to let you know, the 1980's was a time when there was certainly a trade deficit developed but it was also a time of great expansion of American exports, if I remember correctly. American exports incredibly expanded in the 1980's, but what was the problem is that also American imports expanded at a higher rate and I happen to believe that what we should then focus on necessarily is try to make—as

Mr. Brock was saying, let's make sure our exporters have those regulatory policies and those tax policies that will permit them to expand.

Mr. BROCK. But the reason our imports exploded was because we were healthy. We had the booming economy, the most booming economy in the world and we didn't save enough money to allow Americans to grow as fast as we should have grown in terms of our export policy.

You can't continue to have the deficit we have got in Washington and the low rate of savings and not expect to have a trade deficit. It is automatic. It is going to happen. There is no way you are going to avoid it.

Mr. ROHRABACHER. It might help then if we had, for example, a tax system that gave benefits to people who save.

Mr. BROCK. Absolutely. Yes.

Mr. YEUTTER. Amen.

Mr. BONKER. This is becoming a revival. One reason that we weren't saving a lot, we were buying all those Asian imports coming into the country and I am not a defender or proponent of subsidies per se, but I just want to make a couple of points. One is that our trade deficit in 1987 was $160 billion. That was a high watermark. And there was much written about, at the time, how that was going to jeopardize America's economic well-being over the long term.

Today, if you look at the projections based on current reports, our trade deficit for this year is going to be about $160 billion. So we are exporting more, but we are also still importing a lot more than we should. And we can deal with this trade deficit in one of two ways. We can either limit imports like we did in the old Smoot-Hawley days in order to protect U.S. industries or we can export more.

So how do we export more? One way is to follow what has been stated here about making it possible for companies to be more competitive. But we are still dealing with a world out there that is not always fair. And the fact is that Japanese load up their embassies with commercial specialists, if you will, to help their companies. And the French, of course, have been using finance subsidies in various ways to help their companies.

And the question is do we just ignore that? Do we try to match it? Do we intensify negotiations as the Reagan Administration did to put an end to those subsidies?

And if we don't, that trade deficit will continue to go up and it is going to jeopardize this country's job base and economic well-being in the future.

Mr. ROHRABACHER. Thank you, Mr. Chairman.

Mr. ROTH. Now I would like to call on Doug Bereuter who certainly has put a lot of time and energy into this area.

And, Doug, we would like to have your questions.

Mr. BEREUTER. Thank you very much, Mr. Chairman.

I would say, without danger of hyperbole, the three gentlemen before us today constitute through experience and expertise the most knowledgeable panel we could possibly assemble on the subject of the Subcommittee today. And a special welcome to my constituent and long-time friend, Clayton Yeutter, and to Bill Brock,

who came to Nebraska in the final 2 weeks of my campaign in 1978 and probably made the difference.

And you are responsible to some extent for my performance for better or worse, and to Don Bonker, who I always thought of as one of the Members of Congress who has been most knowledgeable and thoughtful on trade issues.

Thank you for your exceptional testimony. I do have a couple of questions before I proceed to the first, though, I wanted to just piggyback on something that has been said very favorably about the foreign commercial service and our Agriculture attaches. While there are some weak people in those areas, of course, since they are a human institution, I think by and large the only problem is we don't have enough of these people. They are spread too thin.

I just came back from seeing some good examples of their work lately. My Virginia neighbor, Dawson Ahault, for example, was in Buenos Aires. Really, no matter how good he was, and he was, could he reach out and serve in Uruguay also. And I think he had Paraguay in addition to Argentina. That is just spreading our resources too thin to get maximum results out of it.

Clayton, my understanding of your testimony is that you are now in support of a Trade Department, the creation of a proper Trade Department, and I gather that you would move the trade negotiation function to that. I think all of you testified to your concerns that whoever is responsible for trade negotiations must have Cabinet-level status.

Within the new Department, as you would see it, if we could get beyond congressional jurisdictional problems, would you expect the Secretary of Trade or Trade and Commerce or whatever it might be called to be, in effect, the trade negotiator?

Mr. YEUTTER. I would expect, Mr. Bereuter, for that person to become personally involved where that is essential. An example might be a negotiation like the one we have just completed with the Japanese over automobiles.

In the final stages of such a negotiation, the ministerial-level person is going to have to be involved, just as Ambassador Brock and I were on a good many occasions when we were USTRs. So that person is going to have to carve out some time for that purpose. But as I said earlier, that is a question of time priorities.

Mr. BEREUTER. Now, if in fact we do have some reorganization, the most likely result would be that we leave the USTR as a Cabinet level—headed by a Cabinet-level individual in the Executive Office of the President and have a newly constituted trade organization which may or may not have Cabinet status.

If you have, perhaps, a trade administrator of a new super entity that comes largely out of Commerce but some other components—what does that do to the effectiveness and the prestige of the USTR knowing that in that scenario he doesn't have the full trade function behind him, it is in an administration or perhaps in a Department?

What does that do to his effectiveness in negotiating with other trade ministers? I would ask any of the three of you to respond to that question.

Mr. YEUTTER. Well, in my judgment, there is value in having it all consolidated.

Mr. BEREUTER. If that doesn't happen, then what?

Mr. YEUTTER. If that doesn't happen, then it seems to me that you clearly have to leave the USTR as your principal trade negotiating official, as is the case today. If you don't consolidate, I would keep that person in the Executive Office of the President as he or she is today (as the USTR). In other words, don't fundamentally mess with the present structure unless you go to a full-scale Trade Department.

On the point of having the USTR personally involved, let me just add that we shouldn't have everything coming to the ministerial level in negotiations. My personal view is that one of the shortcomings of the present administration is that too many of their negotiations have been too high-profile. Had more of the negotiating been done below the ministerial level, they probably would have gotten more accomplished. That is just personal opinion, of course, but one must always decide what is important enough to bring to the ministerial level or, if necessary, even higher. Moving trade disputes to a very high level may be good politics, but it may not always be good negotiating.

Mr. BEREUTER. Either of you two gentlemen wish to comment?

Mr. BROCK. I don't think, Congressman, that you would have any diminishment. I think that is where we are today and my sense is if you dismantle portions of the Commerce Department, which I think the Congress is clearly going to do at least in some degree, and leave at least the trade aspects in some shop other than under USTR, I think that is pretty much where you are today and I am not sure it would make much difference.

I don't think it strengthens the USTR to have them under him. I don't think it weakens to not have it under it. The question with USTR is how much authority does the President give to that person? How much confidence does he have in that person? And if he really does support him, as I think all Presidents have of late, you are going to do fine.

Mr. BONKER. I think Bill Brock expresses my sentiments except I would add that if you put USTR into a Commerce Department or revamped or reconstituted the Department, I think Agriculture would be left out because of the inherent biases that would come with trying to be a promoter of manufactured goods, electronics and so forth, while still trying to negotiate—because often these negotiations involve tradeoffs among agricultural and manufacturing sectors, so I would keep USTR independent.

And I would say to Mr. Mica, for whom I have respect and am pleased to see engaged in this subject—I would like to see a Commerce Department revamped or scaled down considerably, take all these extraneous things out and the programs in trade that work, like the Commercial Foreign Service, strengthen them. Those that don't, get rid of them.

Mr. BEREUTER. Thank you, Don. I certainly have the concerns you expressed about the agricultural function and what might happen.

I have one more question I would like to pursue, Mr. Chairman, if I might, to address to any of the three, and it relates to the discussion about export assistance to our businesses, small to large.

I am not very enthused about the performance I see of the regional offices of the Commerce Department that are supposed to provide assistance and I am not at this point able to make any judgment about the three new regional centers, but I have low expectations about their ability, frankly.

Now, some of our competitors from export-driven economies, like Hong Kong and Taiwan and Korea and Germany, as I understand it, do a varying degree but a significant amount of their economic counseling function through quasi-private foundations.

How about turning over some of the export counseling assistance that Commerce is now attempting to pursue to something like these organizations? Do you have any experience that you could bring to the table on that subject?

Mr. YEUTTER. I would just start with it, Congressman Bereuter. There is some of that going on in these other countries with some modicum of success, I think. I don't see that as a big factor one way or another. I agree with you that the domestic side of the U.S. and Foreign Commercial Service is of dubious merit in the overall scheme of how we spend our taxpayers' money.

I believe most companies either have figured out how to do things on their own internationally, or they have gotten help overseas through the Foreign Commercial Service or the agricultural attaches. Or they have gotten help from State Government officials, or from business forms of other countries that are in the export business. I think we twiddle our thumbs too much on export assistance and probably ought not be spending a lot of time or money on it.

Mr. BROCK. I want to strongly agree with that. The kind of assistance that we provide with the Foreign Agricultural Service and the Foreign Commercial Service is informational. That is good and it is important. Most of our small businesses don't know they exist, maybe more so in the Agriculture area than they do in the business area. But most of us don't know that is available and can be used as a resource.

The problem with regional centers is that there are only three of them instead of one in every town. What have you got in every town? You have a bank. You have Andersen Consulting. You have Baker-McKenzie. You have KPMG. You have all of these firms whose life is in giving that kind of advice and support.

If we don't get people thinking that they have to spend 6 months trying to find out that they are not going to get what they want out of the Department of Commerce, maybe they will go to the people that really can give them the support. There is a marketplace out there and it works and I don't think we have to try to replace it with some new function of government. I just don't think the government is competent and I think it is increasingly less so.

Mr. BONKER. Mr. Bereuter, I think you are on the right track. I think what the Committee should do is an analysis of Commerce Department export trade programs and see which merit your support and which ought to be turned over to a semiprivate or quasi-public entity, if they have merit. And those that don't, get rid of them.

And you have sat on this committee many years along with Chairman Roth. And I remember when TDA and OPIC came before

our committees, there was a track record. There were results. We could look at what they were doing almost project by project.

I don't think—at least I don't recall in my days as chairman—ever having anything like this from the Commerce Department, aside from the Foreign Commercial Service which sometimes is hard to assess. But in terms of its domestic programs, I have never seen anything that says we have results. And my suspicion has been, and I can't say anything about the current administration because I haven't been following it, but in past times, all that money went internally for regional meetings and conferences rather than external, by providing direct assistance to exporters.

Mr. YEUTTER. Just one more point to supplement that. As is the case with most things, the private sector by and large is way out ahead of government in all of this. Much of our private sector is advanced in its knowledge of what is going on around the world, though not everybody is in that situation.

Finally, I would add the point that technology is going to alter all of this in a major way. So whatever you do in the Congress, recognize that the technology of computerization, telecommunications, and other fields of effort, is going to make most everything we have done in the past obsolete in any case.

Mr. BEREUTER. Thank you very much for your time and testimony. It is very valuable.

And, Mr. Chairman, thank you for extending my time.

Mr. ROTH. Thank you, Mr. Bereuter, for your good questions. We are going to ask Mr. Mica for his questions. Of course, he is a key player in this because we are discussing his piece of legislation.

Mr. MICA. I thank you, Mr. Chairman. It is great to get down there and testify and then come up here and get a chance to question.

Mr. BONKER. It is great to see another Mica on this panel.

Mr. MICA. Just temporarily, but I appreciate all of your leadership and your input today.

You all know the way this process works, and trying to do exactly what is right and needs to be done is very difficult, but we do have a situation where we have got a pretty good commitment to dismantle the Department of Commerce. So what I did in my proposal, Don, was to take all of the trade functions that we thought were essential or at least at this time justifiable and viable and put them into an Office of Trade because there will not be a Department of Commerce as we know it, at least under the agreement between the House and the Senate budget conferees.

In the best of all worlds, as you heard my testimony, I would like to bring in finance because finance is so important and that levels the playing field. I mean, if you get out there, you have been out there representing folks, if you represent a U.S. firm or manufacturer that cannot meet the financing when the French come in and through indirect or direct subsidy blow you out of the water as far as financing, you are dead. You can't cut the deal. So that is one area that I would like to see brought in if we, in fact, do this. The other thing, too, is in the promotion.

Mr. Bereuter just got back it sounds like from a visit and saw, I guess in South America—Argentina, and China and Korea, wherever. First thing, I always do is go to the Foreign Commercial Serv-

ice office and see how inadequately they are supplied with personnel and resources and how vast some of the other activities at the embassy are, and we all know that these embassies have turned now into trade centers. These are trade promotion centers and that is what we are competing against.

So, Don, in fact, we do want to enhance those activities.

I think former Secretary Brock, maybe you pointed out, or one of you did—maybe it was you, Clayton—that technology will catch up. We should be able to instantaneously from our consul in St. Petersburg to have on the screens of every Chamber of Commerce, for example, or at your home to pull up what the product opportunities are, what the service opportunities are immediately, and I represented companies that transmit data in huge proportions in far greater than anything we are talking about and you can have that instantaneously.

Now we publish the information in some journal and the opportunity is lost by the time somebody in Sheboygan, Wisconsin, gets an opportunity to participate. So what we are trying to do is bring together these functions in some coordinated fashion.

My bill has been sort of a catalyst. It is not the end-all, and in fact could be altered to bring in any of those other functions. So I wanted to just point those things out.

The other thing too is, the United States has traditionally been reliant on domestic markets and in the next decades we see that the opportunities aren't just here, they are all over the world.

And I think, Secretary Brock, you also pointed out most American businesses have no idea that Foreign Commercial Service offices are available or even that the domestic components, so we have got a lot of work to do.

And right now I think the statistics, correct me if I am wrong, are about 95 percent of the U.S. trade is done by about 3 percent of the U.S. corporations, so turning that around is going to take some time.

My only question is in my proposal, and I am not that familiar with your role as USTR, I have read what other countries have done. I have seen some of what they have done, but to me, we are the only ones that really have the negotiator out separate, most of them appear to be like the Minister of Trade, or Minister of Trade and Industry, or Minister of Commerce, whatever. In the proposal that I have made, we keep Cabinet-level status, not department. Some call it a super agency.

Do you see a problem with that structure or must it be a department or ministerial level to be effective?

Mr. BROCK. Well, there is some disagreement among the panel. I don't see any problem at all with what you are proposing. I think you do have a super status if you are in the Office of the President and I don't think you lose a thing by being there. What worries me about being in a department is that you do get then somewhat captured by the negative forces.

Your affirmative opportunity as U.S. Trade Representative to negotiate the opening of markets overseas is very clear. It is statutory. But it is also almost theological in terms of this country and the way we are looking at the world these days. I don't see that there is any disadvantage in keeping it in that particular frame.

I would, if I can, just add one thought on what you were saying earlier, all of the information that is now gathering dust in somebody's portfolio on their desk in the Commerce Department, ought to be on Internet. So Sheboygan or Chattanooga or Memphis or Appleton business people should be able to access that just like they can pick up the telephone. And there isn't any reason to make these people important by saying you can't get information if you don't go to them. That is what is wrong with trying to have regional officers on all these things. All this information is there now. Put it out on Internet. Access it through American Online or whatever you want and go and do your business.

Mr. YEUTTER. Mr. Mica, I would simply say I like your bill. You have done a nice job of pulling all of this together. It is generally compatible with the testimony I gave here and also to Senator Roth's committee. It is very compatible with Senator Roth's own proposal. You are getting close to what would be a very meaningful improvement in trade organization in this country.

Mr. MICA. Thank you and, Don, the first thing when I got to Congress 2½ years ago was cosponsor the Roth bill with minor variations, so I took up your banner. That doesn't seem to be a possibility at this point.

Mr. BONKER. I retain boxes of files on this subject. You are free to have them if you want. This was Secretary Baldrige's proposed Department of International Trade and Industry versus the Roth-Bonker-Roth proposal.

And I might add that the Baldrige proposal is concise, clearly stated and on a chart it looks excellent. The Roth-Bonker-Roth is a monstrous looking thing with cubicles and boxes and lines, and I am trying to figure out why this is so. I conclude that Baldrige started from a level of idealism about how to construct it where we tried to deal with the politics of it.

Mr. ROTH. That is exactly it. That is exactly right.

Mr. BONKER. But I got a separate thing over here for Agriculture and I will bet you anything that was Bereuter.

Mr. ROTH. You had USTR for Ways and Means.

Mr. MICA. Thank you, Mr. Chairman.

I yield back and appreciate your courtesy.

Mr. ROTH. Thank you, Mr. Mica.

And again as has been said before by many Members, this has been an excellent panel, we want you to know we appreciate your testimony very much. Thank you.

Mr. BROCK. Thank you very much, Mr. Chairman.

Mr. ROTH. Now I would like to call on Allan Mendelowitz. He is the managing director of the Trade Division of GAO. In his capacity, Mr. Mendelowitz has studied every aspect of the trade program and has a thorough understanding of what works and what does not work in these programs.

So we are delighted, Mr. Mendelowitz, to have you here today with us to review this legislation that will be marked up next Wednesday.

STATEMENT OF ALLAN MENDELOWITZ, MANAGING DIRECTOR, INTERNATIONAL TRADE, FINANCE AND COMPETITIVENESS, GENERAL ACCOUNTING OFFICE

Mr. MENDELOWITZ. Thank you very much, Mr. Chairman.

With your permission, I will submit my full statement for the record and make a few brief oral comments.

Mr. ROTH. We will put your full statement in the record and you may proceed as you see fit.

Mr. MENDELOWITZ. I want to thank you for the opportunity to testify today and I want to wish you well as the Committee moves into markup on this extremely important issue.

Proposals to eliminate the Commerce Department provide Congress with both an opportunity and a challenge. The opportunity lies in the ability to take a fresh look at all of the government's trade programs, agencies and activities. The challenge is to determine if the programs and activities can be better organized in a manner that does not harm the government's ability to carry out necessary functions and permits it to achieve congressionally mandated goals in an efficient manner.

These government trade responsibilities include trade policy, which of course includes formulating trade policy objectives, negotiating and monitoring trade agreements; export promotion; trade regulation, including administering export controls and licensing, and import programs, such as antidumping and countervailing duty investigations; and last, trade and investment data collection, analysis and dissemination.

Several early proposals to dismantle Commerce led us to raise issues as to how some trade functions could be adversely affected by the proposed changes. H.R. 2124 introduced by Congressman Mica addresses many of the issues we raised about earlier legislative proposals. However, I still do have some issues for consideration about how some provisions in their present form could affect the conduct of certain trade responsibilities.

In light of the importance that Congress has attached to trade, an issue to consider is whether creating a trade administration that lacks Cabinet-level department status could lead to a perception that the new agency does not have the status of either the U.S. Trade Representative, who is currently in the Office of President, or the Department of Commerce, which is a Cabinet department. The same issue arises with respect to the proposed role and title of the head of the agency, the U.S. Trade Representative/Administrator.

The proposed legislation combines trade functions of only three U.S. Government agencies and does not address opportunities for consolidating the functions of other U.S. Government agencies that carry out significant trade responsibilities.

One approach Congress could use to explore other opportunities would be to task the President to report to Congress on opportunities to improve the cost-effectiveness of Federal programs and achieve budgetary savings through additional consolidation. Alternatively, the Committee could consider such additional agencies and programs within the context of the markup.

Agency trade functions that might be submitted to such review include: the State Department's Bureau of Economic and Business

Affairs; Trade functions and programs at the Small Business Administration; trade functions and programs at the U.S. Department of Agriculture; the International Trade Commission; and possibly the international credit agencies and their programs.

Additionally, the proposed legislation appears to eliminate Commerce's U.S. Commercial Service's domestic network, which would have the effect of severing the link between U.S. businesses in the United States and commercial officers overseas without creating an alternative mechanism to provide this function. We believe explicit consideration should be given to either preserving the domestic operation or developing alternative ways of achieving this function.

And last, placement of Commerce's Bureau of Export Administration in the new entity would diminish the office's status relative to the Departments of State and Defense for purposes of interagency coordination for export control issues. Licensing dual-use commercial products has always involved the careful balance of national security, foreign policy, and commercial interests. Congress recognized this over a decade ago when it elevated the Commerce Department official responsible for export controls to the status of an Undersecretary.

The status of the Export Control Administration in the new agency raises the issue of whether placing this authority on a lower level would alter the necessary balancing of the interests I have identified. In addition, we make several additional observations, but with this I would like to end my summary comments and respond to any questions you might have.

[The prepared statement of Mr. Mendelowitz appears in the appendix.]

Mr. ROTH. Thank you very much, Mr. Mendelowitz.

As I had mentioned before, you are a person who has looked at these issues in great depth and we appreciate your help.

If we do a broad reorganization, what should we do with Eximbank and OPIC? Do we leave them where they are, fold them into a new agency? What is your best recommendation?

Mr. MENDELOWITZ. I have to be very honest. With respect to rolling the Eximbank into the new agency, I am undecided and I will explain my reasons why. Agencies like the Eximbank and the Commodity Credit Corporation, through their direct loans and credit guarantee programs, expose taxpayers to the potential for very substantial economic losses. This responsibility has to be carried out in a very, very sober and careful way.

During the decade of the 1980's, after the United States decided to tilt toward Iraq in the Iran-Iraq conflict, an effort was made to try to find ways to give substance to that tilt. And that decision, after looking across programs in the government and ways of providing additional assistance, focused on the provision of export credits. And, both the CCC and the Eximbank were encouraged to finance exports to Iraq during the Iran-Iraq War.

Iraq at this time represented a very significant risk. Obviously, any time the government gets involved in providing export credits, the risk is going to be higher than merely commercial risk—that is why the government is involved.

However, the risk presented by Iraq was so significant that there were serious questions within the government's interagency forums

as to how much credit to extend to Iraq. Both CCC, which is in the Department of Agriculture, and Eximbank were encouraged to provide support to Iraq. Extensive assistance was provided by CCC; limited assistance was provided by the Eximbank.

The assistance provided by Eximbank was monitored carefully. When Iraq fell into arrears on payments, the window of coverage was closed until the arrearages were made up. The end result was that when Iraq invaded Kuwait in 1990 and Iraq ceased servicing its debt obligations guaranteed by the Federal Government, there was about $2 billion in export credit guarantees that the CCC had to make good on for agricultural exports, and I believe the Eximbank was left with obligations somewhere on the order of only $30 or $35 million.

It is because of that track record of dealing with the difficult responsibility of balancing policy directives from the President with financial responsibility and assessments of risk that I am undecided on the issue. Eximbank has done a good job of protecting the taxpayer in the past while providing support to exporters. My primary concern would be that if the Eximbank were folded into this new Trade Department, its careful fulfillment of its fiduciary responsibility to the taxpayer doesn't get diminished.

Mr. ROTH. OK. I thank you very much. I appreciate that.

Congressman Bereuter, do you have any questions?

Mr. BEREUTER. Yes, thank you, Mr. Chairman.

Mr. Mendelowitz, thank you for your work and your agency's work on this subject.

The Institute for International Economics has argued that the current division of labor between the USTR and Commerce asks for trouble and specifically the Institute says, "Assigning policy coordination negotiations to one official and nonagricultural operational trade responsibilities to a Cabinet colleague invites competition and conflict."

Do you agree? Do you have any thoughts about that subject?

It relates very specifically to the possibility that we might create a new trade agency, whatever level, and still keep the USTR in the Executive Office of the President. And of course that is not too dissimilar now but if we enhance and augment a trade component, consolidate at least the nonagricultural components there, that gives that agency and its head, whether it is a Cabinet-level department or administrator, a higher profile.

Mr. MENDELOWITZ. I used to joke when Mac Baldrige was Secretary of Commerce, that 5 percent of his budget was trade and 95 percent of his time was spent on trade.

I think that what you have identified in the quote from the IIE is a legitimate concern. If you have a department whose sole responsibility is international trade, and in addition to that you have an official in the Office of the President who is a spokesman on trade, I think conflict is inevitable.

I think it is important, though, when we consider what to do with USTR, what to do with Commerce, what to do with various other trade agencies, to keep in mind how the current organization was developed. The current trade organization structure—with the U.S. Trade Representative in the Office of the President and the

International Trade Administration in Commerce, was created as a result of the President's Reorganization Plan #3 of 1979.

There was considerable dissatisfaction with the way the government was organized in the 1970's to handle the trade issue. There were proposals at that time, as you well know, to create a Department of Trade. There were also proposals to change nothing, and the resolution of the debate was a middle-ground solution. The solution was the structure that we have today.

If you do create a Cabinet-level Department of Trade, it is unclear to me why you would need or want to have the U.S. Trade Representative, and I say that with the recognition that USTR has done really an outstanding job. And I think of all the government agencies that I am familiar with, I think it probably has fewer critics in the Congress and the community at large than any of the other agencies that I work with.

Mr. BEREUTER. The one thing that is sometimes forgotten is apparently the statute. As I recall, the statutes that created the USTR gave a very special relationship to the Congress, not just to the President.

Mr. MENDELOWITZ. That is right.

Mr. BEREUTER. And that has always been something that Ways and Means Members particularly cite as a reason not to make changes.

Mr. MENDELOWITZ. If I can pick up on that observation, I think you are absolutely correct there is a special status for the Finance Committee in the Senate and the Ways and Means Committee in the House with respect to the U.S. Trade Representative's Office. It certainly, I believe, is a reflection of the constitutional responsibility Congress has for international trade, but I would also like to point out that the fact that Ways and Means and Finance have a very good relationship with USTR doesn't mean that all the Congress necessarily does.

I remember in the Trade Act of 1988, Title VII, the Buy American Act, required special actions and reporting by the U.S. Trade Representative. That particular title in the 1988 Omnibus Trade bill had come out of the Government Operations Committee in the House of Representatives.

Following passage of the act, the Government Operations Committee asked us, the General Accounting Office, to look at the implementation of Title VII. I arrived at USTR for the opening conference with my staff to alert them to what we were going to do and why we were going to do it. What I found was that while I had assigned an evaluator-in-charge to the assignment and I had given him a staff member, USTR had only one person working halftime assigned to implement the new law. Furthermore, this person had not yet done anything. When I asked why there was so little activity, the response I got was, "We did not know that this was an important issue for the Congress." I responded, "Well, it was in legislation." And I added, "You should be alert to the fact that while you have really good relations with Finance and Ways and Means, trade has become such a broad issue with respect to congressional interest that everybody is going to be asking for trade-related things, and one of the ways that the Government Operations Com-

mittee tells an agency that they are interested in something is they ask GAO to do an audit. That is why we are here."

Mr. BEREUTER. USTR has been focused on their primary relationship and the Congress, as they see it, perhaps to the neglect of other committees.

Just one observation, and then two quick questions. We have heard a lot about USTR in a favorable sense being lean and mean, and while I appreciate meanness in the USTR, I am not sure that leanness has always served us well because it seems to me we are stretched very thin in some areas. Now, they do call upon the components and assets of the rest of the government, including some in Commerce, I gather, to a major extent which isn't always emphasized. I think the leanness is perhaps carried to an extreme. That is pretty unusual for me to say that about a government agency, but I do make an exception here.

Mr. MENDELOWITZ. I think you are absolutely correct on that score. However, I am a firm believer you get more work out of one person who is overworked than two people who are underworked, so leanness has its benefits.

Mr. BEREUTER. I will remember that.

Mr. MENDELOWITZ. And my staff believes that, too, because they were in the office on Labor Day working on this testimony.

Mr. BEREUTER. First of two questions. Dual-use export controls, do you believe it should be maintained in State or should, if we reorganize, move it elsewhere?

Mr. MENDELOWITZ. I do not believe that dual-use export controls should be in either State or the Department of Defense. Having licensing responsibility in the Department of Commerce or in a successor trade agency I believe is important to maintaining the balance between foreign policy, national security, and commercial interests. We are dealing with civilian commercial products, we are not dealing with armaments.

Mr. BEREUTER. Would you then put it in the new trade entity?

Mr. MENDELOWITZ. Yes, I would.

Mr. BEREUTER. Second, and finally, we have had some comments from our witnesses favorable to the concept of consolidating trade promotional activities. What are your suggestions?

Mr. MENDELOWITZ. I am glad you asked about this issue of trade promotion. How the government handles export promotion is a problem which we have identified in recent years. We testified before this committee on the problem, and this committee took action in response to it with the writing of the Export Enhancement Act of 1992, Title II, which put the TPCC into law and tasked it with the responsibility to bring order and improved efficiency to the export promotion programs.

It required an annual report, national priorities, and an annual budget from the President that would rationalize export promotion efforts. There has been progress in this area: the creation of one-stop-shops, the integration of working capital guarantee programs between SBA and the Eximbank, and a number of other measures, which represent improvement in the delivery of the programs. However, we think there are still lots of other opportunities for improvement.

Our view is that you also have to keep some kind of link between the small- and medium-sized business community and the overseas commercial presence that the Foreign Commercial Service represents. Currently Commerce has the district offices. We are not wedded to the current structure as the only way of doing this job, but we are concerned that the function itself not be lost. The function could be altered, for example, by having the Federal Government play a wholesale role and support local Chambers of Commerce or State agencies in undertaking this particular function, as one alternative.

You had asked about Germany, for example. The domestic export counseling function in Germany is done almost entirely by local Chambers of Commerce. However, it is important to note that German business by law is required to join these Chambers of Commerce and pay dues that support the functions they provide. And so they are able to do it through a sort of a quasi-public-private entity because the force of law is behind it and assures a source of funding from the business community.

Mr. BEREUTER. Thank you very much, Mr. Mendelowitz.

Thank you, Mr. Chairman.

Mr. ROTH. Thank you, Mr. Bereuter.

Thank you, Allan Mendelowitz, for being with us this morning and giving us the benefit of your testimony. Let's move forward and see what we do on the 12th and what happens later on.

Mr. MENDELOWITZ. Thank you very much.

Mr. ROTH. Thank you.

[Whereupon, at 12:42 p.m., the Subcommittee was adjourned.]

APPENDIX

Committee on International Relations

SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY AND TRADE

Opening Statement by Chairman Toby Roth
Hearing on Reorganizing Federal Trade Agencies
September 6, 1995

THE FOCUS OF TODAY'S HEARING IS VERY SPECIFIC: AS THE HOUSE MOVES TO DISMANTLE THE COMMERCE DEPARTMENT, WHAT SHOULD BE DONE WITH THE TRADE FUNCTIONS? SHOULD THEY SIMPLY BE TRANSFERRED TO THE U.S. TRADE REPRESENTATIVE, AS CONGRESSMAN MICA HAS PROPOSED? OR SHOULD WE GO FURTHER, AND REACH ACROSS THE GOVERNMENT TO CONSOLIDATE THE DOZENS OF TRADE FUNCTIONS AND AGENCIES INTO A NEW DEPARTMENT?

THESE QUESTIONS HAVE AN ADDED URGENCY BECAUSE OF OUR PERSISTENT AND WORSENING TRADE DEFICIT. LAST YEAR, OUR MERCHANDISE TRADE DEFICIT WAS OVER $160 BILLION THE WORST IN HISTORY. THIS YEAR WE ARE HEADED TOWARD A $200 BILLION MERCHANDISE DEFICIT, $40 BILLION WORSE THAN LAST YEAR.

WE MUST ORGANIZE OUR TRADE PROGRAMS WITH A CLEAR UNDERSTANDING THAT THE FEDERAL GOVERNMENT HAS A CRITICAL ROLE IN HELPING AMERICAN EXPORTERS COMPETE IN GLOBAL MARKETS.

TODAY WE HAVE WITH US SOME OF THE NATION'S MOST EXPERIENCED AND THOUGHTFUL LEADERS IN THE TRADE FIELD. BILL BROCK SERVED WITH DISTINCTION IN THE HOUSE, IN THE SENATE, AS LABOR SECRETARY AND AS OUR TRADE REPRESENTATIVE. CLAYTON YEUTTER ALSO HAS HAD A DISTINGUISHED CAREER IN A VARIETY OF POSTS, INCLUDING SECRETARY OF AGRICULTURE AND OUR TRADE REPRESENTATIVE. FOR MANY YEARS I WORKED WITH DON BONKER ON TRADE ISSUES WHEN HE CHAIRED THIS SUBCOMMITTEE. DON, I WELL REMEMBER OUR BILL IN 1983 TO CREATE A DEPARTMENT OF TRADE. FROM THE GENERAL ACCOUNTING OFFICE, WE HAVE ALAN MENDELOWITZ, WHO HAS SPENT YEARS ANALYZING WHAT WORKS AND WHAT DOESN'T WORK IN OUR TRADE PROGRAMS.

TO LEAD OFF, WE WELCOME THREE OF OUR COLLEAGUES WHO ARE EACH PLAYING A LEADING ROLE IN THIS AREA: DICK CHRYSLER, WHOSE BILL TO DISMANTLE THE COMMERCE DEPARTMENT WILL BE MARKED UP NEXT WEEK; JOHN MICA, WHO HAS INTRODUCED A VERY THOUGHTFUL BILL TO MOVE THE COMMERCE DEPARTMENT'S TRADE FUNCTIONS TO THE TRADE REPRESENTATIVE; AND DON MANZULLO, CHAIRMAN OF THE SMALL BUSINESS COMMITTEE'S TRADE SUBCOMMITTEE, AND AN ACTIVE MEMBER OF THIS SUBCOMMITTEE AS WELL.

BEFORE I RECOGNIZE CONGRESSMAN GEJDENSON, LET ME MAKE ONE OBSERVATION. FOR THOSE OF US WHO HAVE WORKED FOR YEARS TO STRENGTHEN OUR TRADE PROGRAMS, THIS MAY BE OUR BEST OPPORTUNITY TO MAKE FUNDAMENTAL REFORMS. IN TRUTH, IT MAY BE OUR LAST CHANCE. FOR THE INTEREST OF OUR EXPORTERS AND OUR NATION'S TRADE POSTURE, I WANT TO MAKE THE MOST OF IT.

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STATEMENT OF THE HONORABLE DONALD MANZULLO

BEFORE THE SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY

AND TRADE

HOUSE INTERNATIONAL RELATIONS COMMITTEE

ON TRADE REORGANIZATION

September 6, 1995 10:00AM in Room 2172 RHOB

Mr. Chairman, it is an honor to appear before you this morning. Even though I am a Member of this Subcommittee, thank you for the opportunity to testify before you this morning.

With the commitment of the Congressional leadership to dismantle the Department of Commerce, we are at an historic opportunity to reorganize the trade functions of the federal government.

Earlier this spring, I began to hold a series of hearings on the Export Subcommittee I chair on Small Business regarding the appropriate role and function of federal export promotion programs.

First, I brought in the principle players in the Administration who promote commercial exports to explain and justify their programs. Because agriculture receives over half of export promotion funding, I held a second hearing specifically focusing on farm exports. To get more at the unvarnished truth, I asked several academic experts who do not participate in any of these export promotion programs to comment on the merits or pitfalls of these programs. This hearing included the General Accounting Office. Finally, several small- and medium-size businesses testified at my fourth hearing to explain how these export promotion programs have helped to create and sustain jobs in their company. I also intend to hold another hearing on private sector resources that provide export information.

What did the subcommittee learn from these hearings? First, the federal government has an information providing and advocacy role in export promotion. This is not corporate welfare because these programs are open to all businesses. The government does not pick "winners and losers." The key is getting the word out that these programs exist and making them work better.

Second, export promotion efforts of the federal government are a confusing mass of programs that are not fully integrated. I submit for the record a copy of a chart prepared at my request by the Department of Commerce of the 19 agencies involved in the Trade Promotion Coordinating Committee (TPCC) process. If it is hard for us to understand, can you imagine a business person trying to figure this out?

Third, as the GAO testified, keeping these programs does not necessarily mean having to spend more money. In fact, you can do a lot more with the proposed $3.2 billion 1996 budget request for these programs through streamlining and consolidation. Why is it that nearly half of the Trade Development and the International Economic Policy office are frequently asked by the United States Trade Representative's office to focus on trade policy? Do we need that many people in those offices?

Why do we have a separate Foreign Agricultural Service officer and a U.S. and Foreign Commercial officer serving in the same embassy abroad or in the same city here at home? Why is the budget of Agriculture's Market Promotion Program at $110 million, serving less than 10 percent of our overall exports, while the U.S. & Foreign Commercial Service has a budget of $165 million, serving the other 90 percent of U.S. exporters?

It is obvious that we need to totally rethink the federal government's trade promotion organization. The GAO identified five key principles for the Exports Subcommittee in reorganizing government:

1) Reorganization demands an integrated approach;

2) Reorganization plans should be designed to achieve specific, identifiable goals;

3) Once the goals are identified, the right vehicle must be chosen for accomplishing them;

4) Implementation is critical to the success of any reorganization; and

5) Oversight is needed to ensure effective implementation.

I ask that the entire GAO response to my inquiry be made a part of the record.

And, finally, the White House Conference on Small Business placed an unprecedented emphasis on trade. The creation of a "one-stop-shop" for all government trade information and assistance, especially focusing on small business, was the 11th top recommendation out of 60 from that conference.

Mr. Chairman, you asked a series of questions in preparation for this hearing asking my recommendations for a restructured federal trade agency. Like you, Mr. Chairman, I support the trade reorganization bill introduced by good friend, John Mica.

However, it does not go as far as I would. Like the small business people who attended the White House Conference last June, I want to see a true "one-stop shop" for all federal government trade resources. Personally, I would like to see all 19 agencies, including agriculture and export financing, combined into a new trade department. Why should the Commerce Department and the Environmental Protection Agency both be promoting environmental exports? Why should the Agency for International Development be involved in promoting trade? Why do we need different international economic statistical gathering experts at the State and Commerce Departments? Why does the United States Information Agency receive any export promotion funding? All these, and more, can be consolidated, combined, or eliminated altogether.

I know that my proposal may be politically premature. For example, I understand the historic resistance to removing the trade negotiator from the Executive Office of the President. But if we have this comprehensive Trade Department, with Cabinet-level status, it makes no sense to keep them separate. The Secretary of this new department would not have to resolve inter-agency disputes if every one of the trade-related functions from the 19 agencies is combined into this new department.

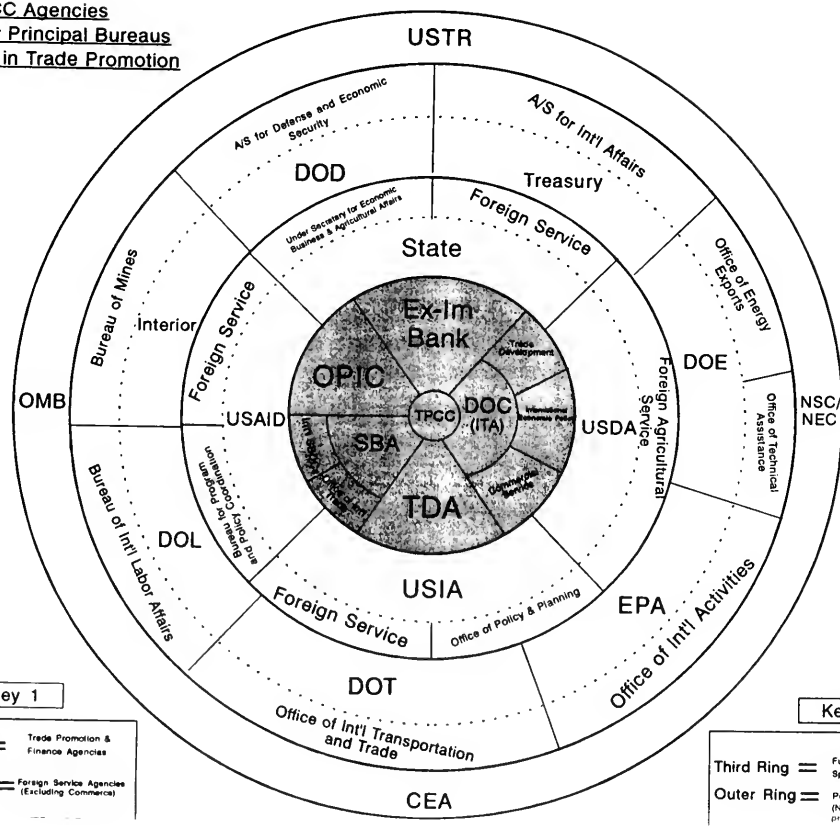
I also understand that there is historic resistance to remove agricultural-related trade issues outside of the Department of Agriculture. But it doesn't make sense to separate the one agency that receives over half of the export promotion dollars from this new Trade Department.

And, I am willing to make the sacrifice to make this happen. This should not be a debate about preserving committee jurisdictional turf but what is in the best interest of the taxpayer. For example, as part of the reauthorization process for the Small Business Administration, the Small Business Committee is prepared to eliminate SBA's Office of International Trade. Small business people, though, must have a government resource for trade information, and it should be contained in a new Trade Department.

Finally, this new Trade Department should preserve a commercial voice on export licensing decisions. The Bureau of Export Administration must be part of any new reorganized trade bureaucracy. Turning over export licensing to the State or Defense Department would further impede America's ability to export dual-use items for purely commercial purposes.

Thank you, Mr. Chairman, for the opportunity to testify before you this morning, and I would be pleased to answer any questions you or subcommittee Members may have.

The TPCC Agencies
and their Principal Bureaus
involved in Trade Promotion



Key 1

Inner Ring = Trade Promotion & Finance Agencies

Second Ring = Foreign Service Agencies (Excluding Commerce)

Key 2

Third Ring = Functional/Sector Specific Agencies

Outer Ring = Policy/Oversight Agencies (Not engaged in day to day promotion efforts)

STATEMENT OF REPRESENTATIVE SAM GEJDENSON
HEARING ON DEPARTMENT OF COMMERCE

I would like to compliment Chairman Roth for calling this hearing in such a timely fashion. No one in Congress has a better understanding than Chairman Roth of the direct relationship between international trade and jobs for American working people.

I have very serious doubts about any proposal to dismantle the Commerce Department. Even H.R. 2124, the Mica bill, while well-intentioned, diminishes the stature of trade in the U.S. Government. As Secretary Ron Brown testified before this Committee, the only problem that the Mica bill solves is the Chrysler bill.

The net effect of the Mica bill is to place greater importance on eliminating a cabinet department for its own sake, without a demonstrated cost savings, than on protecting the interests of American business and the jobs of American workers. I say this for three basic reasons. First, the new Trade Administration will not be cabinet level and business interests will lose a seat at the table at the highest levels of our government. Second, in the absence of demonstrated cost savings, this is a shell game of replacing a department with an agency and sending the other functions elsewhere within the bureaucracy. Third, by trying to fix something that is not broken, the bill will severely hamper the trade function within the U.S. Government. The folks at MITI in Japan must be licking their chops. Let's look at each of these points in turn.

First, once you eliminate the Department of Commerce, any non-department entity that you replace it with will not have the same stature. H.R. 2124 does not give the new U.S. Trade Administration cabinet level rank. And it can not. Only the secretaries of the 14 departments have been permanently part of the President's cabinet. Each President can decide who else he wants to make part of this non-legal body known as the Cabinet, and Presidents have exercised that discretion in different ways. But clearly there is a distinction drawn between the secretaries of the departments and everyone else.

As a result, under H.R. 2124, the one department in

government whose core mission it is to enhance economic opportunity for Americans would lose a seat at the table. We would be eliminating the department that is the only voice for U.S. business in the President's cabinet.

Under this diminished status, the Trade Administration would also not have the ability of the Commerce Department to lead on trade issues. So, while H.R. 2124 would theoretically put the new Trade Administrator as Chair of the Trade Promotion Coordinating Committee, it is questionable whether this non-department entity could really lead cabinet departments. I am not even certain that the head of this agency would always get his or her calls returned. The same is true in export controls. Do the proponents of this bill really believe that the Trade Administration will continue to be the lead agency in this contentious area?

Second, this bill has no demonstrated cost savings. By its own acknowledgment, CBO has not yet issued reliable numbers. As one senior Republican Senator said: "If all we're going to do is pick and choose and shift personnel from one department to another, I'm not sure I understand the purpose of this exercise". What do we save by eliminating a department, creating a new agency, and transferring some other functions to other agencies?

I am one who thinks that there might be opportunities for cost savings in the Department of Commerce. If our objective is to reduce government waste and to save money, then let's focus our efforts on doing just that and not on playing some shell game and moving boxes.

Third, this bill would try to fix two trade entities, neither of which is broken. And in the process, it would place the U.S. at a disadvantage in international trade.

Since January 1993, Secretary Brown and the Commerce Department have made a difference in creating 300,000 American jobs, by virtue of exports alone. For its part, the U.S. Trade Representative has been a superb negotiator on behalf of U.S. business. This bill would upset what has proven to be a very efficient operation at the Department of Commerce and saddle an equally effective U.S. Trade Representative with extensive functions that would hamper its ability to negotiate.

The engine of export promotion at the Commerce Department has generated 4,000 export success stories with small and medium-sized businesses in 1994 alone. For every dollar Commerce spends on export promotion, $10.40 is returned to the U.S. Treasury. It is not surprising then, that over the last 7 years, U.S. exports have accounted for over one third of our economic growth. It makes no sense to upset an operation that is working so well and transfer this function to an agency unsuited to administering a large trade operation.

The USTR is a negotiator. It is a lean organization capable of moving quickly to address the issues that arise in complex negotiations. It has also been part of the White House structure, providing it with access to the President it would not otherwise have. Moving the trade functions under the USTR would maximize the limitations of USTR while minimizing its strengths.

Let's stop the shell game. Let's not eliminate a department for its own sake. Let's not make ourselves the laughingstock of the trade world. Let's make the cuts necessary at Commerce to save money and increase efficiency, without diminishing our trade operation.

STATEMENT BY THE HONORABLE
DOUG BEREUTER
September 5, 1995

Mr. Chairman, let me commend you for holding this important hearing today and for inviting a vast array of very knowledgeable witnesses, including current Congressional leaders on this reorganization initiative, our former distinguished colleague, Don Bonker, two other distinguished Americans who served as both United States Trade Representatives and as department secretaries, Ambassador Bill Brock and Ambassador Clayton Yeutter, as well as Mr. Mendelowitz of the GAO.

I would like to take just a few minutes to place this dismantlement of Commerce and the reorganization of our trade functions in some historical perspective.

With respect to trade coordination, Mr. Chairman, it appears we have been trying to reorganize, reinvent, streamline, and rationalize our trade functions since 1950. At that time the Department of State headed the Trade Agreements Committee which originally included eight agencies. Around 1962, we gave the United States Trade Representative cabinet level status and trade coordination responsibilities. Then in 1975, we turned the Trade Agreements Committee into the Trade Policy Committee and named two subordinating groups, the Trade Policy Review Group (TPRG) and the Trade Policy Staff Committee (TPSC). In subsequent legislative acts of 1979, 1984, and 1988 we further expanded the authorities of the USTR to among other things, make it vice-chair of the Overseas Private Investment Corporation, make the USTR responsible for services negotiations, and gave it the primary responsibility for enforcing our unfair trade laws.

Mr. Chairman, as you know, this subcommittee over the years and under your leadership and that of Don Bonker has been extremely involved in the ongoing battle to better coordinate the Federal government's trade promotion. Since 1988, we have passed two Export Enhancement Acts and the Jobs Through Export Expansion Act to establish, among other things, the Trade Policy Coordinating Committee and give it the authority to **identify and eliminate duplication among our programs.**

Mr. Chairman, I have cited this historical chronology of our actions not to discourage our efforts today, but to place some important context around what we are trying to do. Throughout all of these endeavors, I have witnessed more and more government agencies get involved in the business of promoting U.S. exports. In its second annual report to Congress, the TPCC identified fourteen government agencies involved in this government activity of export promotion. For example, the United States Information Agency received nearly three times the entire budget of the USTR in 1994. Is that an appropriate allocation of our export promotion and trade negotiation dollars?

This member suspects, Mr. Chairman, that we are partially to blame for the proliferation in the number of government agencies who claim to promote U.S. exports. When the Agency for International Development came under serious attack in the last decade, they saw fit to claim that they were promoting exports and creating jobs in the United States. Perhaps that is why AID is providing $20,000 grants to U.S. business people to fly to Asia and attempt to sell their environmental technologies. This Member questions whether this is an appropriate expenditure of our precious export promotion dollars and at a more basic level, whether AID should be in this business of flying U.S. business people at all.

Mr. Chairman, this Member strongly believes that we need to focus on getting many U.S. government agencies out of the business of promoting exports -- not just shifting boxes and tasks -- and centralizing that task in one place. Making one person ultimately responsible and accountable so we, Congress, can bring that person up before this subcommittee and evaluate his/her performance. If we can get this process moving in that direction, then I think we will have accomplished something that we have failed to accomplish in over forty years.

Finally, let me make one comment about our U.S. agricultural export promotion efforts. Now I anticipate to hear today a lot of comments about how the United States spends a disproportionate amount of Federal export promotion dollars on agricultural exports, a fraction of our total exports. While there can be no doubt that we do spend a significant disproportionate amount of our resources on this function, **let me remind everyone that we have been engaged in an all-out subsidy war in the last forty years with the European Union for agricultural export markets. (Even today they outspend us nearly 10-1 in processed food export subsidies).**

Now economists will tell us (and I expect our friends from the General Accounting Office to do the same) that it is extremely inefficient to subsidize agricultural exports. But that is like telling the small town gas station in a two gas station town not to meet his competitors prices because he cannot afford to sell his gas below cost.

Mr. Chairman, we are trying to get ourselves in the agricultural industry out of the business of subsidizing our exports. That is what the Blair House Accord and the Uruguay Round Trade Agreement were all about. But in the mean time, it is not helpful to say that manufactured exports do not get enough of our Federal government export promotion dollars vis a vis agriculture. I don't think we want to start another subsidy war in that industry.

THE HONORABLE JOHN L. MICA
Testimony before the Subcommittee on International Economic Policy & Trade
September 6, 1995

INTRODUCTION & CASE FOR A UNIFIED TRADE OFFICE

It is a privilege to testify today before your Committees on the issue of the elimination of the Commerce Department and the implications for our U.S. trade programs. Let me start by saying that for seven years in the private sector I served as an international business trade consultant. Having represented both large and small business interests I believe I had a good vantage point and opportunity to view U.S. trade assistance to American concerns in the U.S. and abroad.

First, let me say that our trade promotion and assistance programs are at best a disorganized mess.

We have 19 agencies with separate missions each going their own way. In the process we spend billions of taxpayers dollars often in an uncoordinated and ineffective manner. We have a hodge podge of trade activities tacked on to various agencies over the years that must be reorganized.

As you may know, in the last decade, the U.S. has lagged behind in exporting in nearly every category. For the month of May, our trade deficit reached a staggering all-time record high of $11.4 BILLION.

Unfortunately we have depended and relied on a domestic market for trade while our international competitors have existed and survived only by competing in foreign markets.

Only a small percent of U.S. firms account for nearly all our foreign exports.

The ideal solution would be to combine most of our 19 agencies that deal with trade and export promotion, negotiations, finance, and assistance.

At the very least it is critical that as we dismantle and reorganize trade and export functions in the Department of Commerce, State and other agencies, and that we establish a coherent basis for an Office of Trade with cabinet-level status.

While I concur with current efforts to dismantle certain agencies, it would be a dramatic error to leave trade promotion and assistance in its disorganized state.

EXPLANATION OF LEGISLATIVE PROPOSAL HR 2124

That is why I have been joined by several of my colleagues in introducing legislation which will be the first step in doing a better job promoting trade with limited resources. The bill lays the groundwork for a United States Office of Trade with cabinet level status.

The Office will integrate the trade and economic functions of the United States Trade Representative, the Commerce Department, and the Trade and Development Agency.

The United States Trade Representative will head the restructured Office and will continue to perform the role of the nation's chief negotiator and will additionally be responsible for trade promotion, policy, and administration. The Administration will be at **cabinet-level** and removed from the Executive Office of the President.

The USTR will be supported by a Deputy United States Trade Representative (with ambassador status) who will be responsible for all trade negotiations, a Deputy USTR to the World Trade Organization, and a Deputy Administrator, who will serve as the agency's chief operating officer responsible for non-USTR functions, including administration of trade laws, promotion of exports, and trade policy analysis. The Office will integrate the trade and economic functions of the Commerce Department, the Trade and Development Agency.

The organizational structure will be flat and designed so that each function will maintain its own **functional autonomy**. This will ensure that the negotiation function can still be performed effectively. The USTR will be the Chair of the Trade Promotion Coordinating Committee, and will be responsible for developing and coordinating U.S. trade policy.

In addition, my proposal elevates the current International Trade Administrator by giving that position in the US Trade Office ambassadorial status.

This plan accomplishes several important objectives:

First, we preserve the functions in the Department of Commerce that actually create exports and therefore jobs.

Second, business keeps a seat at the cabinet table. It is critical that business be represented at the cabinet level in order for our international economic interests to be weighed in the executive decision making process. Otherwise, the diplomatic and security concerns of the Department of State and Department of Defense might overpower our economic concerns. It is critical that in this post-Cold War era, we recognize that our economic interests are really of utmost importance in international relations.

One key provision in my proposal which recognizes the importance of the commercial interests retains the licensing of dual-use and enforcement functions in this United States Trade Office, instead of transferring this function to the State Department. The placement of this function IS critical. Again, as we restructure, we must do so in a way which ensures that our international competitiveness is enhanced. Having BXA in the Office of Trade ensures that the proper balance between competitive and national security interests will be struck in licensing dual-use technologies.

Third, we have a nucleus for a more comprehensive Trade Office which will be able to more effectively coordinate our trade policy. This proposal specifically assigns the USTR as the Chairperson of the Trade Promotion Coordinating Committee. Finally, we will have one person who not only has that title, but has the authority as the head of the US Trade Office to implement this coordination. Eventually, I would like to see other important trade functions folded into this Office for a more unified trade effort.

EXAMPLES OF INEFFICIENCIES

In order to compete in the international arena, large and small businesses need every bit of assistance and aid to succeed. The embassies of other nations have become trade and business centers.

The United States has twice the number of economic officers in its embassies gathering statistics than Foreign Commercial Service officers. I was pleased to see that Chairman Rogers' Commerce, State, Judiciary appropriations bill committee report identified the State Department economic officers as a duplicative of the Foreign Commercial Service officers. That report directed the State Department rectify that duplication by eliminating the State Department economics officer positions that are duplicative.

For example, with trade delegations and in visits I found in Moscow that the Foreign Commercial Service officers I could count on one hand, while AID had an entire building filled with hundreds of employees.

Last year in Brataslava, in the capital of the emerging Slovak former eastern bloc nation, I found an AID office that exists which is larger than our embassy office with 1 part time U.S. Foreign Commercial Service officer commuting from Vienna.

To make matters worse and justify their existence, AID is now opening U.S. commercial offices with limited cooperation and coordination with our Foreign Commercial Service.

I attached language to the Foreign Aid authorization bill which proposes a study for how we can accomplish true consolidation and streamlining which would impact all of the 19 differing agencies. This language will also be part of the Senate bill. For now, however, my proposal simply starts with the trade functions of the Commerce Department.

CASE FOR COMBINING THE USTR & COMMERCE FUNCTIONS

Finally, let me address one of the concerns that might be raised regarding my bill. First, some might argue that the USTR's office is lean and mean and should be left out of any trade office. Let me suggest that the federal government should play two roles relating to trade:

First, we should negotiate for open and free markets.

Second, we should assist U.S. business exploit those open and free markets.

Let me just say, if these two functions aren't coordinated or compatible, then those two goals will never be achieved. All of our major trading partners like Canada, Japan, France and the U.K. have a single, unified agency.

In addition, it should be noted that one of the reasons we have only 170 people at the USTR's office is because most of their analysis and technical support comes from the Commerce Department. I believe the effectiveness of both of these functions could be enhanced if they worked in a single, coordinated unit.

Again, it is critical that we provide all Americans with the capability of competing in the international marketplace with the tools and resources to be successful.

Only then will the U.S. create jobs and opportunities for the future.

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VICE CHAIRMAN

Testimony of

The Honorable Dick Chrysler
United States House of Representatives
8th District, Michigan

before the

Committee on International Relations
Subcommittee on International Economic Policy and Trade

September 6, 1995

Mr Chairman, thank you for the opportunity to appear before this Committee to continue our discussion of Commerce Department dismantling As the chief sponsor of the bill which began this process, I am delighted that we have moved beyond the question of "*Should* we dismantle the Commerce Department?" to the question "*How* do we go about it?"

And, of course, I am deeply gratified by the House leadership's commitment to moving forward with a budget reconciliation bill that achieves the objective of eliminating an agency which exemplifies the kind of overreaching government that our constituents sent us here to correct

My previous testimony has focussed largely on the reasons why I believe the Commerce Department should be dismantled I know that you, Mr Chairman and Members of this Committee, are interested today in moving beyond those arguments to the details of how we put together a sensible and efficient arrangement for trade policy and promotion in a post-Commerce Department federal government

CONSOLIDATION: THE NEED FOR A SINGLE TRADE AGENCY

One of the biggest questions in this discussion is the status of the current Office of the United States Trade Representative (USTR) in any reorganization of trade functions Both our proposal and Congressman Mica's would - in somewhat different ways - consolidate USTR and certain International Trade Administration (ITA) functions, into one unified, cabinet-level trade agency

Some have argued that USTR should remain a part of the Executive Office of the President, as a sort of "honest broker" on trade issues. Yet the idea that USTR is currently an "honest broker" is not credible. As part of the White House, USTR has become - especially under the current Administration - simply another part of the White House's political operation, and trade policy is being advanced as a means of achieving the President's political objectives. Today's ceremony touting the seriously-flawed auto pact with Japan is a case in point.

Moreover, I think we must recognize that a divided trade policy establishment -- USTR as the leader, ITA (or a successor organization) as the "poor cousin" -- is a global anomaly. Right now we have two cabinet officials at the table advocating for U.S trade. It is wasteful, duplicative, and it reduces our effectiveness vis-a-vis our major trading partners, like Canada, Japan, France, and the UK, all of which have unified -- and highly effective -- trade agencies. I am absolutely convinced that we can learn a lesson from these countries.

Why do we have one agency that negotiates market access and another that pursues those markets? Does it not make the most sense for both functions to be under one roof? By breaking Commerce's trade functions out of a hidebound bureaucracy, by streamlining those functions, by taking trade policy out of the politicized environment of the White House, and by eliminating the senseless division that exists between USTR and ITA, U.S business will end up with a much more effective advocate, and our trading partners will face a much more formidable presence across the negotiating table.

When Ambassador Kantor appeared before the full International Relations Committee last month, he complained that consolidating USTR and ITA trade functions simply would not work, that it would pose too great an administrative burden on the U.S Trade Representative, and that it would detract from USTR's ability to focus on trade negotiations.

Simple logic, however, persuades me that by putting all trade policy functions under one roof -- as our major trading partners do -- we will dramatically increase the efficiency and effectiveness of the entire process. And we can do so with fewer people and at a greatly reduced expense to taxpayers. We are facing a situation in this government in which we have got to take a page from the private sector's book and start working harder and smarter.

The argument that "it can't be done" can no longer be acceptable. We need bold new thinking and innovative ideas to radically transform this federal government, and that is what this Congress is all about. Once and for all, we need to get away from the notion that success is measured by the number of agreements negotiated, the number of employees at work, and the number of dollars spent. This is Washington at its worst, and it has to change. This Congress, with your Committee's help, will help bring about that change.

EXAMINING PARTICULAR TRADE FUNCTIONS

I would like to turn now to the particular fate of each of the current International Trade Administration functions as part of any consolidation of trade functions.

Trade Development - (FY95 spending. $67.6 million). The area known as "Trade Development" is one agency that would be terminated under our proposal Trade Development (TD) is a collection of so-called industry experts that are in the business of developing industry-specific positions on various trade policy issues. However, the U.S electronics or automotive industries are much better equipped and more capable than any bureaucrat sitting at 14th and Constitution when it comes to developing trade policy positions that advance their interests. In some areas, notably textiles and apparel, TD effectively acts as a taxpayer-financed lobby for narrowly defined segments of a particular U.S. industry.

Our job in government is to find mechanisms that allow these industries to communicate their positions directly to U.S. trade policy makers without the unnecessary mediation of government middlemen. I am confident that even some of the industries that have complained of "losing a seat at the Cabinet table" would agree that eliminating TD will result in a more direct - and much more productive --interaction between the private sector and trade policy officials. Our legislation provides for the creation of Industry Advisory Boards to facilitate this direct interaction.

In just about every case of which I know, business community support for ITA is based on support for the U.S & Foreign Commercial Service -- I have not heard a single voice defending the need for the industry analysis provided by TD

International Economic Policy - (FY95 spending $27 8 million) I believe that any consolidation of ITA's current functions should lead to a significant reduction in the current part of ITA known as International Economic Policy (IEP) IEP is often described as the country-specific support staff for USTR's trade negotiators, and a certain portion of IEP might need to be folded into a consolidated trade agency in order to maintain an effective trade policy

A large amount of IEP's current work, however, is strictly duplication of effort For instance, the Central Intelligence Agency maintains a very good database on international economies By eliminating the inefficient division between USTR and IEP, a great deal of this duplication could be done away with. Again, no private sector representatives have told me that they rely on IEP's country analysis in order to move forward with international trade and investment decisions

United States & Foreign Commercial Service - (FY95 spending. $158.3 million): Our plan to restructure trade functions would eliminate the domestic arm of the United States Foreign & Commercial Service (US&FCS). Instead, we would concentrate our limited trade promotion resources on beefing up the "foreign" part of the Commercial Service.

Several of my colleagues in the House and a number of business representatives have defended the work that domestic US&FCS offices have done to promote trade. I am not questioning those assertions -- I am sure these offices are doing fine work in many cases.

But clearly we have a budget resolution which requires us to make tough choices. For me, the most useful guide to making those choices is the following question: Is the U.S. Government the only entity which can perform these functions? In the case of domestic US&FCS offices, the answer is clearly no, especially in the age of fax machines and the Internet.

I recently learned that up to 90% of the questions received in the Salt Lake City, Utah, office are routine, repeat questions - questions that can be answered effectively using today's modern technology. We should consider concentrating resources on strengthening the presence of commercial officers in our embassies abroad, where they are doing the most good, and where U.S. companies have the greatest need for "eyes and ears "

In all this, of course, we need to keep in mind that 92 cents of every dollar spent in this country on trade promotion is spent by the private sector, and 95 cents of every dollar in the Commerce Department's budget has nothing to do with trade We should strengthen government's trade promotion role where it is most needed, keeping in mind that the private sector is already the major force behind export promotion.

Import Administration - (FY95 spending. $30 3 million): The Import Administration arm of ITA should be consolidated into a new trade agency, as proposed in both my legislation and that of Congressman Mica.

Export Administration: I know that there has been some concern about our proposal to transfer Commerce's export licensing functions to the State Department, and I have heard a great deal about this from the business community This is a sensitive and difficult issue from a number of different angles -- trade competitiveness, national security, and foreign relations.

I do not accept the notion that the Commerce Department is the only agency where this work can be done effectively, and I certainly do not accept the notion that the Commerce Department should be maintained "as is" in order to preserve a home for the Bureau of Export Administration

I continue to believe that the State Department can administer export licensing in a way which balances national security and commercial interests I also think that Congressman Mica's proposal to house export licensing within a small, streamlined United States Trade Administration gives us another good option to consider as we move towards a budget reconciliation bill

The entire issue of export controls is not so much a problem of bureaucratic organization as it is one of ensuring that the laws governing this process are brought into line with our current national interest. So I hope that your committee and others will continue to work on modernizing our export control statutes.

CONCLUSION

Mr Chairman, the private sector in this country has been undergoing a process of slimming down which is temporarily painful but which ultimately strengthens the economic competitiveness of the United States. The voters of my district sent me here to help bring about a similar process in the federal government.

It is time for the public sector to start working harder and smarter, setting clearer priorities, and eliminating inefficient duplication of effort Our constituents expect nothing less than a federal government that is as lean and efficient as this country's most successful businesses -- small, medium, and large.

We have a tremendous opportunity this year to start down that path by dismantling the Commerce Department and consolidating international trade functions into a unified, small, and effective trade agency The Congressional Budget Office has indicated that our plan would save American taxpayers almost $8 billion over the next five years I believe that we will see even greater savings from the added efficiency we will generate from streamlining federal trade functions and other Commerce activities

I think this effort will provide us with the momentum to take a good, hard look at other U.S government trade and investment functions which could be done better and more effectively by the private sector In particular, I hope that we can examine OPIC, whose investment guarantee functions duplicate those provided by private companies like AIG Always, the question should be· Should the U.S government be involved in this business?

As a result of this process, I am confident that we will end up with a trade policy and trade promotion structure which speaks with one voice, is less costly to taxpayers, and is more effective in responding to the complexities of today's trading environment

Thank you, Mr Chairman

William E. Brock Testimony
before the
International Economic Policy and Trade House Subcommittee
of the
House International Relations Committee

September 6, 1995

Mr. Chairman, Members of the Committee, let me begin by expressing my gratitude for the opportunity to think out loud with you on a subject of real consequence. Let me also express my gratitude for your willingness to take on a largely thankless task. Despite its obvious importance, the organization of government as a subject for conversation can usually draw more yawns per hour than almost anything we discuss in the nation's capital, but I repeat, it is fundamentally important, and I appreciate the initiative you have taken.

I'd like to do three or four things in this brief appearance. First, I'd like to try to place this entire conversation about the Commerce Department in a larger context of government reorganization in total. Second, I'd like to discuss the department itself. Third, I'd like to look at its relationship with other function areas such as those encompassed under the United States Trade Representative, and lastly, I'd like to make a suggestion for your consideration in terms of how we restructure this government in the economic area.

On the matter of governmental reorganization writ large, I'd like to express a concern about considering either the abolishment or the re-creation of an individual department, whatever that department is, without evaluating the entire organization of the Executive Branch. A few weeks ago, I testified before another House committee on the possible merger of the Department of Education and the Department of Labor. My problem with looking at these issues on a department by department basis lies in the fact that we need to have a complete rethinking of the organization of the Executive Branch. Trying to do this piece by piece is just about the worst way that it can be done. I respect the mandates you have been given and understand that, given the present organization of the Congress, it would be hard to proceed in any other fashion. But, I strongly feel you are illogically constrained

unless you could look in a larger context, and I think it is important to say at the outset.

Over the years, we have developed departments on the basis of constituency demand rather than function. Simplistically, if you think about it that way, Education serves the public education community, Commerce serves business, Agriculture serves farmers, Veterans serves veterans, and so on. What we have done is to set up government to maximize the influence of pressure groups by giving each of these major groups their own advocate in the Executive Branch at the Cabinet table. No wonder most citizens feel they have lost their voice.

Better than twenty years ago, early in the days of the Administration of President Nixon, serious proposals were made to reduce substantially the number of Cabinet positions and make the Cabinet itself more workable. Equally important, the intent was to design the Executive Branch around function areas needed to have a coherent approach to governance. Thus, there would have been a Department of Human Resources, one of Natural Resources, and so on.

I'd like to argue strenuously that we need to take another look at that approach. Government is not working. Business is moving to horizontal management and decentralized responsibility--the imperative of a global economy. Government has to keep pace--get radical, change, or get out of the way.

Well, I've gotten that off my chest. That's not the matter before us today. You have a specific responsibility, and you have asked me to testify on the particular imperative of reorganizing the Commerce Department. I'll try to do that.

It has been said that this Department is the place where everybody threw programs that had no other logical home. Whether that is true or not, it is obvious that there are a number of disparate functions in the Department that have little or no relationship to one another. Many of these could be spun off, to advantage.

Let me give you an example. I have long thought and said that there should be a totally independent agency of government that engaged in the absolutely crucial function of statistical development and analysis. It should be under no political control. It should be treated as the General Accounting Office or the

Federal Reserve System and given real independence from day to day political intervention. This would encompass offices like the Census Bureau in the Department of Commerce, and the Bureau of Labor Statistics now in the Department of Labor as well. Throughout government we have statistical shops that could be combined. Not only would efficiencies occur, and very substantial efficiencies in terms of savings in money and man power, but we could actually improve the quality of the product itself.

I don't want to go line by line through the Department of Commerce's organization chart. One other example would suffice. I see no reason for NOAA to be part of the Department, and would suggest that it too can well be organized as an independent agency. Its functions are absolutely important, but they really do not require the political control inherent in a Cabinet department.

This brings me to an area in the Department that I think shouldn't exist at all, and that is export promotion. We have cut defense to the bone. We're doing the same thing with a number of social programs that in many cases serve a useful purpose. The thought that our government needs to subsidize the promotion of American products overseas, or even their marketing and distribution, is to me unconscionable. Cut it out. Use a chain saw if you have to, but if we are going to reform welfare, we might as well start with corporate welfare. There is no excuse for these taxpayer-financed supports of competitive free enterprise.

Let me reluctantly make one exception. The import-export bank--not because it is a logical application of government, but because we have to date failed to stop the practice of governmental credit subsidies by other nations. Once we do stop them, then this too should cease to exist.

It must be obvious by now that I have left unaddressed one area that is of extraordinary importance and consuming personal interest to me--the area of international trade. Before I look at the role of the Department of Commerce either now or in prospect, let me draw back and look at the trade function with you just for a moment.

Presently, trade policy has been assigned by a congressional act to the office of the President in the person of the United States Trade Representative (USTR).

This has been the case for a quarter of a century, and throughout that time the decision has caused wailing and gnashing of teeth in departments as disparate as the State Department, Treasury, Agriculture, and, yes, the Commerce Department. Each of these has felt that they could do a better job, a more forceful or more effective or more responsive job than the U.S. Trade Representative.

Yet, there is a reason for this assignment of responsibility. The Constitution gives the Congress, not the President, authority to make decisions affecting international trade, particularly in the use of tariffs.

The Congress then delegated its authority to the President for good and obvious reasons. No Congress composed of 535 members could engage in the day to day conduct of international trade policy. But, neither did the Congress want to give up its authority totally. Thus, the assignment to the office of the President, and not a department. They've had experience with the State Department trying to run trade policy, with the Treasury trying to run trade policy. Each Department brought its own bias and focus to the task. We were not well served. Thus, the USTR was created in 1962 with the clear purpose of keeping it out of any one Department. In placing this responsibility in the office of the President, the Congress exercised a remarkable degree of wisdom, one that I would be loath to see changed.

It would be my suggestion then that those functions of the present Department of Commerce which support the negotiation of liberalizing accords with other nations be assigned to the U.S. Trade Representative. Once this was done, and having removed the functions previously mentioned, the present Commerce Department would have no further reason for existence.

I don't want to leave the matter there. If there is a void in the U.S. government today, it is in the absence of any place for the advocacy for a future vision for our nation in a global economy. My concern with the present Commerce Department is it is captive of those forces who want to keep what they've got. That's true of other agencies like the Department of Agriculture or Transportation, but it is particularly so in this sense.

In a global economy, those who prevail are going to be those who are fastest on the feet, most flexible, those who live in a nation whose focus is on human development, research, motivation, incentives, and freedom. Wouldn't it be interesting to have one aspect of government whose sole task was to facilitate change to constantly try to remove the impediments to competitive enterprise imposed by government, one department whose task was to work towards deregulation, competitive tax policies, incentives for human development, research, and new technologies. Such a function, as a department or as a part of the office of the President might deserve some thought. The Commerce Department is no such shop.

If I can for just one final thought return to my beginning point. As you enter into this conversation Mr. Chairman, members of this distinguished committee, I plead with you to look at this reorganization as a part of a larger whole, to engage your colleagues on other committees in a conversation to do so as well, and to abjure the temptation to limit your change to such marginal improvements as the elimination of a few programs or even a department.

The world today is linked electronically and economically. The pace of change is accelerating. It will not slow down. It may be the principal task of government to limit its activities to the development of our human skills and personal freedoms so as to maximize the capacity for adaptive response to that change. That will be extraordinarily difficult.

In a period such as this, the pressures for resistance to change will be almost irresistible. People are going to feel increasingly vulnerable in a global economy, and they're going to ask you to slow down the pace of change, to resist it, to protect them. We do so at our peril. We can't protect, we can prepare. The imperative of radical improvement in public education, in training, in tax and regulatory policies is absolute. I pray this will be a part of your conversation.

Thank you very much.

WEB **September 6, 1995**

TESTIMONY BEFORE THE U.S. HOUSE OF REPRESENTATIVES SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY AND TRADE

By Ambassador Clayton Yeutter[1]

September 6, 1995

Mr. Chairman, thank you for inviting me to comment on the functions of the Department of Commerce and other trade related entities of the U.S. government. I am pleased that you and your subcommittee have exhibited such a strong interest in this important subject.

Since serious consideration is being given to streamlining government by eliminating Commerce and certain other cabinet departments, I will comment only in a cursory way today on the non-trade functions of that department. I leave a more thorough analysis of those functions to others who are more familiar with them than I.

I have noted, however, that some Executive Branch spokesmen seem to be defending all elements of the Commerce Department and its present overall structure. Those views should be rejected, for no government department is sacrosanct. Needs and priorities change over time, and there is no government entity that cannot be improved through timely restructuring. In almost every case, downsizing will also yield efficiencies, as has been demonstrated over and over again in the U.S. private sector during the past decade.

Therefore, Mr. Chairman, I applaud your leadership in seeking to downsize and reshape the Federal government. Over the last three decades, government has intruded arrogantly into American life. Through the years there has been plenty of talk about reorganizing and downsizing government, but these efforts have been half-hearted and have achieved only limited success. With strong leadership, Mr. Chairman, I am confident Congress can accomplish what should have been done ages ago.

Our goal should be to downsize smartly, so that government becomes leaner and meaner, but still effective--hopefully more effective than when it was larger and more cumbersome. It means rewarding those functions that are superior performers, i.e., those that provide more bang for the buck. It is an ongoing challenge

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[1] Former United States Trade Representative, Secretary of Agriculture, and Counselor to the President.

that will never be fully met, but one where vigorous engagement by both the Executive and Legislative Branches will always be worthwhile.

As a more specific objective for the Congress, I would strongly recommend the consolidation of all major trade functions into what I would call a trade ministry, the term that is used by most other countries.[2] Debate over the future of the Commerce Department provides a unique opportunity to deal with this issue in decisive fashion, for the first time ever.

Your first question might well be: "Are you recommending that we emulate MITI, the Japanese Trade Ministry?" My answer is "no" for there is a lot not to like about MITI! It has far too much government infringement in the operations of Japanese business, and its industrial development efforts have been more bust than boom. But I do like what some of the other trade ministries of the world are doing, and we ought to pick the best and avoid the worst of each if we are to establish a trade ministry here in the U.S.

U.S. trade policy has produced some incredible achievements over the past decade--among them the Uruguay Round, NAFTA, and the U.S.-Canada Free Trade Agreement. USTR has been an outstanding performer, but we do not now have, nor have we ever had, anything approaching a full-scale trade ministry. We can do better. With exports becoming ever more important to our economy, the absence of a coordinated, cohesive U.S. trade ministry which brings the same weapons into battle that are available to our foreign competitors is a travesty.

Furthermore, a powerful trade ministry is what the non-agricultural sector needs most from the U.S. government. Our manufacturing sector and other elements of what we typically call "industry" can take care of themselves on the domestic scene. So can our burgeoning services sector. It is in the international arena where they still need the "presence" of an active Federal government. That presence should be provided by a trade ministry that would vigorously represent the interests of American business and workers.

What should one call this entity? I leave that to you, but possibilities might include: a Department of International Trade (DIT); a Department of Commerce & Trade (DCT); or a Department of Trade & Industry (DTI). Obviously there are an infinite number of other possibilities.

Almost every trade ministry throughout the world is now at Cabinet level, so ours should be as well. To do otherwise would be to reduce the stature of our

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[2] We'd have to give it a different name, because we do not use the ministerial structure, but this is a meaningful description of what is intended.

minister (Secretary) among his or her counterparts, and that would clearly be harmful to our own interests. Our goal should be to underscore, not undermine, the clout and prestige of a U.S. trade ministry.

Of greater importance is what this ministry contains, and how it would function within the Executive Branch. So let's turn now to those questions.

In establishing a trade ministry, I'd start with one of my former entities, the Office of the U.S. Trade Representative. USTR, a superlative performer, will probably always be at the heart of U.S. trade activity, no matter where it is placed in the hierarchy of government. It fits comfortably where it now resides, in the Executive Office of the President, which gives it great prestige. But that positioning is also the source of innumerable turf battles with the present Department of Commerce, and USTR's support network is "voluntary," and not at its behest and command.

The other departments of government are typically supportive of USTR, particularly at critical points in our trade negotiations, but this is never a given. Other departments have their own priorities, and they are not always the same as USTR's. In addition, we'll never have a trade ministry with the clout this testimony visualizes until and unless we consolidate the principal trade functions of the U.S. government in one cabinet department. Most of the Congressional proposals I've seen thus far this year do too little consolidating.

USTR is akin to a strike force in nature and in *modus operandi*, and many fear that those special attributes will be lost were it to be combined with other entities and functions in a larger cabinet department. That is a risk, of course, but it need not occur. Congress can preclude it from occurring by preserving USTR's lean, flexible, semi-autonomous status within a new trade ministry. That is a question of legislative language, and follow-up organizational execution.

I'd also put the Export-Import Bank (Ex-Im) in a new trade ministry.[3] It too would lose some of its independence and autonomy were this to occur, though I'd make it "semi-autonomous" in much the same way as USTR. To exclude it would be to leave out a lot of global horsepower. And if a trade ministry is to carry out the mission I've outlined today, the Secretary will need all the horsepower he or she can possibly command. If this Department is to effectively serve the American business community outside the borders of the U.S., Congress has to give it the tools to do so.

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[3] The Overseas Private Investment Corporation logically would be included as well, but I have not done so on the assumption that Congress may wish to privatize it.

Placing the U.S. and Foreign Commercial Service (FCS) in a trade ministry should be an easy decision. Agricultural exports have been one of this nation's great success stories, and the Foreign Agriculture Service (FAS) within the Department of Agriculture has had a lot to do with that. FCS is now attempting to repeat those successes in the non-agricultural arena, so it deserves to be one of the principal entities of a consolidated trade ministry. I would, however, eliminate the U.S. (domestic) part of that organization. That would reduce the size of the program, save considerable money, and there is no reason why such functions cannot be performed by a combination of state agencies and private sector associations.[4]

USTR and Ex-Im give a trade ministry excellent front line trade weapons, and FCS has the potential of being a first class "delivery" organization. But these entities must have professional support, and that's where some of the present Commerce Department functions become relevant. For example, Secretary Brown has skillfully used the U.S. and Foreign Commercial Service, backed up by trade development support, in promoting the export of American products in overseas markets. I'd dramatically downsize the Trade Development office, but pick the best of it for inclusion in what I would call the Export Promotion arm of a new trade ministry. In addition to the kind of efforts undertaken by Secretary Brown, I'd also use this new office to provide background support for USTR, and perhaps even some for Ex-Im.

I would also put the Office of Import Administration, which handles antidumping and countervailing duty cases, into the trade ministry because that is an important function with major policy implications. It should be located within a cabinet department, not in an independent agency such as the U.S. International Trade Commission. Moving it to the USITC might reduce what is perceived to be the size of the Executive Branch, but it would not be a sound move in terms of how trade policy is carried out in the U.S.[5]

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[4] In my view it would be a mistake to put FAS in a new trade ministry. Today FAS has a proven record of achievement; an overall trade ministry does not. When the latter has demonstrated its competence, consideration might be given to adding FAS programs to the trade ministry--and perhaps certain programs from other departments as well.

[5] Some have advocated moving the USITC itself, an independent body whose principal function is to determine "injury" in antidumping, countervailing duty, and Section 201 cases, to a new trade ministry. I do not concur; this is the one major trade function of the U.S. government that should <u>not</u> be encompassed in a consolidated trade ministry. Injury determinations are tremendously sensitive politically, for there is huge financial benefit to a petitioning domestic industry if an injury finding can be obtained. Furthermore, there is often no one in the private sector to articulate the cost of such a determination to consumers of the affected

Import Administration, deservedly or undeservedly, has a reputation for being protectionist. Some, therefore, suggest that it should not be a part of a department whose orientation is one of opening markets, promoting U.S. exports, etc. Others suggest it should not be combined with USTR, lest U.S. domestic interests be traded off during negotiations. In my opinion these are fallacious concerns; they are all red herrings. One of the most important duties of a Cabinet Secretary is to balance interests. The Secretary of every major cabinet department must make these kinds of tradeoffs every day of the week. Trade ministers in other countries do so, and there is no reason why ours cannot and should not carry out those same responsibilities.

Some legislative proposals that are before the Congress, Mr. Chairman, suggest placing the licensing functions of the present Bureau of Export Administration in the State Department and the enforcement functions of that program in Customs (i.e., within the Treasury Department). I have no views on the latter, but I believe it would be a mistake to move licensing responsibilities to State, a department which sometimes has difficulty accepting arguments of American self-interest. I'd put export licensing in our trade ministry and, since these programs require relatively few people, it might be simpler to keep the enforcement function there as well.

I'd also put a dramatically downsized version of the present Technology Administration in the Office of Export Promotion. Let's get out of the industry policy business, which is too complex and unpredictable for any government bureaucracy, and save a lot of taxpayer money in the process. But we should maintain a highly select, specialized capability in technology policy and advocacy for this will be the key to American competitiveness in the next century.

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product. Hence, it is the USITC itself that must objectively balance those interests, a task that it can perform much more comfortably if it is independent of the Executive Branch of government.

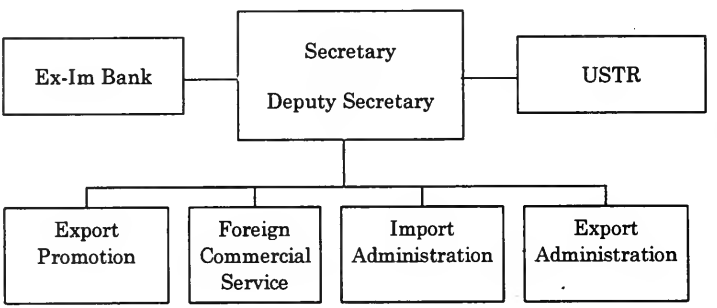
Nevertheless, suggesting that the USITC should not be politicized is not synonymous with suggesting that it remain unchanged. Congress has through the years given this agency numerous tasks that go well beyond injury determinations. So this is a good time to assess whether there is a compelling need for the USITC, or anyone else in government, to carry out those tasks. If so, the Congress should also assess whether they can best be done by the Commission, or whether they could be absorbed by staff of a new trade ministry, at a considerable saving in personnel and other costs. I would hypothesize that significant savings could be achieved through a comprehensive analysis of this agency's peripheral functions.

That leaves a need for policy expertise and analytical capability in what I earlier defined as the Office of Export Promotion. It can come from the international economic policy office of the present International Trade Administration and/or from the present Bureau of Economic Analysis (supplemented perhaps by some personnel who are now at the USITC), but only in numbers that are truly required.

As to everything else in Commerce (what I've often referred to as the "miscellaneous department"), I'd move it, downsize it while doing so, or eliminate it. That too should save substantial sums of taxpayer money.

Where does that leave us? With a new trade ministry composed of: (a) two front line agencies to provide expanded export opportunities--USTR and the Ex-Im Bank; (b) support entities in Export Promotion, Export Administration, and Import Administration; and (c) an overseas field organization, the Foreign Commercial Service (FCS).

How would it look on an organizational chart? Here is one possibility:



Some might still see this as a downgrading of USTR (and perhaps Ex-Im as well), but I would not concur. This would be a strong, vital trade ministry, at least comparable to any other in the world. Therefore, it ought to attract highly competent, energetic individuals to the position as Secretary. Can that person do the jobs we've now assigned to two cabinet officers, the Secretary of Commerce and the USTR? Of course, for as any good executive knows, that is a question of priorities and organizational and managerial skills. It is being done successfully elsewhere in the world; why not here?

Under this arrangement the Office of the U.S. Trade Representative would be headed by the principal Deputy, who would report to the Secretary just as he or she now reports to the USTR. Having our trade minister be a "Secretary," rather than an "Ambassador," is also advantageous. Many people in the U.S. and elsewhere do not now realize that the USTR is a member of the Cabinet.

Finally, what about the interagency coordinating role, the "honest broker" role that is usually played by USTR as an organization? In the trade ministry I've outlined, that role can continue to be played by the Office of the USTR as sub-cabinet level and below, just as it has for many years. At the cabinet level, there are at least two options, Mr. Chairman, from which Congress may choose. One is simply to leave that decision to the President of the United States, as has been done in recent years. The cabinet level coordinating role might well be assigned to the trade ministry (Secretary), or perhaps to the chairman of an interagency coordinating group, who might be a top White House official or even another cabinet Secretary (such as the Secretary of the Treasury, who has often filled that role in the past). The second option is to legislate how this is to be done by prescribing the trade minister as the official who shall carry out that responsibility. That would obviously give the minister clearly defined clout, but it would also be perceived as an infringement on the President's executive prerogatives.[6]

I am persuaded that an organization of this type would work, and work well. It would give international trade its rightful place within the hierarchy of the U.S. government for the first time, and would demonstrate to the rest of the world that the United States is really serious about opening markets and competing on a level playing field.

This restructuring would eliminate one Cabinet department (Commerce), as you had hoped. It would replace it with another, an outcome you had hoped to avoid. But a new trade ministry organized in this manner will be more focused, more effective, and more efficient than the cobbled-together arrangement we now have. And it will do its job with far fewer people and far less taxpayer money. It is the kind of framework that can help lead us into the 21st century as the most competitive nation in the world, a status we now have and one which we should vigorously maintain.

Mr. Chairman, I'd be pleased to respond to any questions you may have.

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[6] The legislation might also specify that the trade minister should be part of the U.S. team to the G-7 Economic Summit and other major international meetings where trade is discussed.

STATEMENT BY:

THE HONORABLE DON BONKER

Former Member of Congress

and

President,

International Management and Development Institute

on

TRADE REORGANIZATION

September 6, 1995

Statement on trade reorganization proposals
By: Former U. S. Representative Don Bonker

Mr. Chairman, it has been twelve years since I sat as chairman of this subcommittee and conducted hearings on trade reorganization proposals. You took a keen interest in the subject at the time and I am a pleased to see that you are presiding today and will play a major role in how this Congress determines the future of the Department of Commerce and implementation of U. S. trade policy.

Let me state for the record I am opposed to elimination of the Department of Commerce. I also would caution against any plan that would compromise the independence of the Office of the U. S. Trade Representative. With that said, Congress can and should overhaul the Department of Commerce with an eye towards streamlining and eliminating needless and redundant programs.

You will recall, Mr. Chairman, in May, 1983, Malcom Baldridge, then Secretary of Commerce (I might add possibly the best Cabinet Secretary to ever hold that position), sparked a national debate on trade reorganization. His advocacy of a plan to create a new Department of International Trade and Industry (DITI) was timely given our soaring trade deficits and America's perceived inability to compete during the 1980s. While the Secretary succeeded in coaxing the Reagan Administration to back his plan, his crusade ended when a tragic accident took his life.

The only other voice came from Senator Bill Roth (R. Del), whose leadership in the Senate led to the introduction of a bi-partisan trade reorganization bill, which you, Mr. Chairman, and I both endorsed. This became known as the Roth-Bonker-Roth trade reorganization bill. In July, 1983 we conducted hearings on these proposals and a great deal was written in the press, but ultimately the issue lost its greatest advocate in Secretary Baldridge and it was also unlikely a Democratic Congress with its myriad of jurisdictions and jealousies would have gone along with such an ambitious plan.

That was twelve years ago. Little has changed, except the trade deficit continues at unacceptable levels. Indeed the merchandise trade deficit is headed toward a new high this year, probably exceeding by a wide margin the record $152 million deficit of 1987. Accumulating trade deficits -- the last surplus was in 1975 -- render the United States increasingly dependent on foreign investors and threatens U. S. living standards in the long term.

Eliminating the one Department whose principal mandate is export promotion would be ill-advised.

To those who wish to eliminate the Department of Congress or reorganize the trade functions of the U. S. Government, I wish to make the following points:

1. The three essential areas of trade policy and implementation that must remain separate and distinct are:

a. Trade Negotiations. This is USTR's principal task and it should not be incorporated into another department, nor should it be the dumping ground for export promotion programs.

b. Trade Promotion. This responsibility is shared by several Departments (Commerce, State, Agriculture) and independent entities (Export-Import Bank, OPIC). It is possible to move these agencies around but needless reshuffling may undermine the viability of those that are performing well.

c. Trade Mitigation. Commerce and the International Trade Commission (ITC) jointly preside over the hundreds of trade cases that require governmental action. If not Commerce, I frankly don't know where you place this responsibility.

Commerce presently plays an indispensable role in all the above functions, and to eliminate the Department or randomly disperse these responsibilities without regard to their impact on the U. S. trade position could jeopardize America's competitive position at a time when we are being challenged as never before. It would be tantamount to dismantling DOD at the height of the Cold War.

2. There is an underlying principle, which I am certain you can appreciate, and it is this: **Don't try to fix something that isn't broken.** I apply this to the following government agencies that are, if anything, super-performers in the trade field:

a. U. S. Trade Representative. Pursuant to a 1962 act, John Kennedy created the Trade Representative's Office to be the President's in-house chief trade adviser, to coordinate trade policies that cut across the conflicting jurisdictions and warring

views of multiple agencies, and to be the nation's chief trade negotiator. This small office has proved effective and always well managed under the tutorship of pre-eminent people (notably Bill Brock, Clayton Yeutter, Bob Strauss and Mickey Kantor). To load it up with export promotion activities from other agencies (H.R. 1756) or merge within a bulky revamped Commerce Department (H.R. 2124) would be a travesty, in my judgement. Trade negotiations is a delicate task and necessarily involves brokering among other departments and agencies and the Congress, and the chief negotiator must enjoy unique and direct access to the President. To mix that responsibility with mandates to champion U.S. exports or presiding over trade disputes will most certainly compromise, if not undermine, the negotiator's traditional role.

b. Overseas Private Investment Corporation and Trade & Development Agency. These Department of State agencies are the unsung heroes of America's trade promotion efforts. At one time, I thought they should be transferred to the Department of Commerce to, of course, consolidate all trade-related functions in a single department. That would be a monumental mistake -- then, as well as now.

c. Export-Import Bank. The attached article in last month's Journal of Commerce ("Ex-Im Bank Wins Rousing Applause for Range of Successful Initiatives") says volumes about this agency. Twelve years ago, liberal Democrats were trying to eliminate the agency and did succeed in terminating some of its programs. Had they succeeded, the U. S. trade deficit would be much higher today.

Mr. Chairman, I know you are a champion of export trade and have demonstrated your commitment both as a leader on this subcommittee and in your own district. I have attended your highly successful export conference which you host every year. I hope you will do everything in your power to convince your colleagues to not tamper with those agencies and programs, referred to above, which are doing so much to keep America strong and competitive in international markets.

Now for the Department of Commerce. While I do not support its elimination as proposed by Rep. Chrysler, I also do not feel it can be made more effective by transforming it into a super trade department, which is the purpose of Rep. Mica's bill. I would suggest the following:

a. NOAA, as we know, compromises one-half of the Commerce Department budget. It should be set up quasi-public entity, similar to the Export-Import Bank.

b. Bureau of Export Administration (BXA). This is a relic of the Cold War days, but export licensing is still needed for proliferation and foreign policy control purposes. However, it remains as a major impediment to U. S. high-tech exporters because of shared jurisdictions and the intense rivalry among departments. The late Senator Heinz was right. An independent agency should be established, with state, DOD, Commerce, the NSA, all serving on a Board to set policy and administered by an appointed person confirmed by the Senate.

c. International Trade Administration (ITA) and the U. S. Foreign Commercial Service (USFCS).

In all my years on this committee and in the past six years in the private sector, I have found Commerce Department export trade programs to be the least effective. While Secretary Ron Brown deserves credit for his high profile, non-stop, buy-American promotional campaigns involving the captains of industry, the fact remains that at the ground level, where it counts, the ITA is of negligible value to small and mid-size companies. It has been my experience, especially in the private sector, that U. S. companies who seek government help go to the Ex-Im Bank, OPIC or TDA to get assistance. Commerce is seen as too bureaucratized and removed to be of any value to exporters.

Frankly, I do not know why this is so. On the surface the programs and people who administer them seem fine. When I chaired this subcommittee, I remember that the Commerce Department trade programs received $166 million in appropriations and OPIC with no authorizations and TDA with a then-budget of $3 million were doing a great deal more to promote U. S. exports. I do feel the USFCS proves valuable services aboard, in the U.S. Embassies, especially since Congress reassigned this agency to the Department of Commerce. But I question the value of it domestic counterpart, especially since it has little presence in regions of the country where businessmen can use its services.

To summarize, I recommend the following:

1. Don't eliminate the Department of Commerce, but remove agencies, like NOAA, so the department can be more focused on

economic and trade activities. Export trade functions must be revamped to be more effective or dismantled. The Bureau of Export Administration should be removed from Commerce, State and DOD and made an independent entity.

2. Keep USTR independent and definitely apart from export promotion and trade mitigation functions Its mandate as chief trade negotiator will be undermined if it has multiple mandates and responsibilities.

3. Avoid trying to set up super trade department. It seems to me that the rush to eliminate the Department of Commerce was a means to slim down government not expand it. I believe the evidence will show that smaller, keenly focused agencies perform much better than large institutions.

4. Support Sen. William Roth Jr.'s draft bill that calls for setting up a commission that would offer recommendations by June 1, 1996, on how to restructure the executive branch.

Senator Roth's proposal is a prudent one given the enormnity of the issue. I understand the sentiments of newly elected Congressmen who want radical changes. I was elected in 1974 with a similar mandate to overhawl the seniority system in the House of Representatives. But what should not be sacrificed here is America's competitive position and persistent trade imbalances that may threaten jobs and even our standard of living in the future.

United States General Accounting Office

GAO

Testimony

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GOVERNMENT REORGANIZATION

Observations About Creating a U.S. Trade Administration

Statement of Allan I. Mendelowitz, Managing Director
International Trade, Finance, and Competitiveness Issues
General Government Division

GAO/T-GGD-95-234

GOVERNMENT REORGANIZATION: OBSERVATIONS ABOUT CREATING A U.S. TRADE ADMINISTRATION

SUMMARY OF STATEMENT BY ALLAN I. MENDELOWITZ, MANAGING DIRECTOR INTERNATIONAL TRADE, FINANCE, AND COMPETITIVENESS ISSUES GENERAL GOVERNMENT DIVISION

To assist Congress in its deliberations on the Trade Reorganization Act of 1995 (H.R. 2124), GAO reviewed the potential effects of certain provisions on federal trade-related activities. The act would merge the Office of the U.S. Trade Representative (USTR) with several Department of Commerce offices and the U.S. Trade and Development Agency to create a U.S. Trade Administration (USTA).

The proposal addresses many of the issues GAO raised about earlier legislative proposals. However, GAO discusses several issues for consideration about how some provisions, in their present form, could affect the conduct of certain trade responsibilities.

- - In light of the importance that Congress has attached to trade, an issue for consideration is whether creating a trade "administration" that lacks cabinet-level department status could lead to a perception that the new agency does not have the status of either USTR or the Department of Commerce. The same issue arises with respect to the proposed role and title of the head of the agency, "U.S. Trade Representative/Administrator."

- - The proposed legislation combines the trade functions of only three U.S. government agencies and does not address opportunities for consolidating the functions of other U.S. government agencies that carry out significant trade responsibilities. One approach Congress could use to explore other opportunities would be to task the President to report to Congress on opportunities to improve the cost-effectiveness of federal programs and achieve budgetary savings through additional consolidation.

- - The proposed legislation appears to eliminate Commerce's U.S. Commercial Service's domestic network, which would have the effect of severing the link between U.S. businesses and commercial officers overseas without creating an alternative mechanism to provide this function.

- - Placement of Commerce's Bureau of Export Administration in the new entity would diminish the office's status relative to the Departments of Defense and State for purposes of interagency coordination of export control issues. Administering the export licensing of dual-use commercial products has always involved a careful balancing of national security, foreign policy, and commercial interests. This raises the issue of whether placing this authority at a lower level would alter the necessary balancing of these interests.

GAO makes several other additional observations about this proposal as well.

Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss a proposal to establish a U.S. Trade Administration (USTA) by combining the Office of the U.S. Trade Representative (USTR), various offices in the Department of Commerce, and the U.S. Trade and Development Agency (TDA).

My testimony today will address several broad trade-related issues. The first part of my statement will provide some context by discussing (1) the basis for the federal role in international trade, (2) the various roles that USTR and Commerce play in international trade activities, and (3) the interagency mechanisms that help integrate federal trade activities. I will then address issues related to the current proposal in H.R. 2124, "The Trade Reorganization Act of 1995," to create a U.S. Trade Administration.

My remarks today are based on over a decade of our work covering a wide variety of trade-related issues. These involved export promotion, including the programs of the Commerce Department, as well as the U.S. Department of Agriculture (USDA), the U.S. Export-Import Bank (Eximbank), the Small Business Administration (SBA), and TDA; major trade negotiations and agreements, such as the North American Free Trade Agreement (NAFTA) and the General Agreement on Tariffs and Trade (GATT); trade regulation, including antidumping and countervailing duty matters; export licensing; and other issues.

THE FEDERAL GOVERNMENT'S ROLE IN INTERNATIONAL TRADE

The role of the federal government in international trade originates from the U.S. Constitution, which grants to Congress broad, comprehensive, and exclusive authority to regulate commerce with foreign nations. Article I, section 8, of the Constitution lists specific powers of Congress, including the power to "lay and collect taxes, duties, imposts and excises . . . [and] to regulate commerce with foreign nations." While Congress has clearly retained a prime role in international trade policy, it has delegated significant authority to the executive branch. For example, since 1934, Congress has delegated to the President authority to negotiate international trade agreements for the reduction of tariffs. In further delegation of their responsibilities, Congress and the President have tasked numerous federal agencies with administering a wide variety of trade laws and programs.

Federal activities in international trade can be divided into four major areas: trade policy; export promotion; trade regulation; and trade data collection, analysis, and dissemination. (See app. I for a discussion of federal trade responsibilities.) The number of agencies involved and the need for and use of interagency coordination mechanisms differ among the four areas. (See app. II for a list of federal agencies significantly involved in international trade.)

USTR AND COMMERCE ARE AT THE CENTER OF FEDERAL TRADE ACTIVITIES

USTR and Commerce share major responsibilities in U.S. government efforts to formulate, coordinate, and implement U.S. trade policy and programs in all four areas. Roles and responsibilities vary depending on the area and the particular circumstances involved.

While USTR and Commerce are at the center of federal trade activities, they have different characteristics as organizations. USTR is a relatively small agency located in the Executive Office of the President. USTR had a 1994 budget of about $22 million and a staff of about 170 people. The office is led by the U.S. Trade Representative, a cabinet-level official with the rank of ambassador. The U.S. Trade Representative acts as the principal trade adviser, negotiator, and spokesperson for the President on trade and related investment matters. USTR is responsible for developing and coordinating U.S. international trade, commodity, and direct investment policy, and leading or directing negotiations with other countries on such matters.

On the other hand, Commerce is a much larger and more complex organization, led by a cabinet secretary with a variety of responsibilities. The activities of several agencies within Commerce focus on international trade matters.[1] Together, these trade-related Commerce agencies had a 1994 budget of about $350 million and a staff of around 2,800 people.

Formulating Trade Policy

USTR shepherds the formulation of U.S. trade policy through an interagency process from its location in the Executive Office of the President. Trade policy deliberations largely take place in the cabinet-level National Economic Council (NEC), sub-cabinet-level Trade Policy Review Group (TPRG), and staff-level Trade Policy Staff Committee (TPSC). These interagency forums have a combined membership of 24 agencies and other members. They are supported by a congressionally mandated private sector advisory system of about 1,000 advisers organized into about 40 committees that provide the U.S. government with advice from the private sector on international trade matters. Through these forums, USTR seeks to blend their many views into one coherent policy and implementation strategy. (See apps. III and IV for lists of member agencies to NEC, and TPRG and TPSC, respectively.)

As an advocate for commercial interests, with which it interacts on a daily basis as part of its broad trade responsibilities, Commerce participates in federal trade policy deliberations, trade negotiations, and monitoring implementation of trade agreements. Staff of Commerce's International Trade Administration (ITA) provide much of the information and analysis that support the formulation of trade policy and the U.S. strategy for trade negotiations. For example, USTR relied heavily on Commerce's country desk

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[1]These specific activities are discussed in the following sections.

officers to provide region-specific analysis for use in negotiating NAFTA. Commerce staff also work with the advisory committees representing exporter and industry sector concerns that contribute to the formulation of trade policy. In addition, Commerce staff participate in some negotiations and help to monitor other countries' compliance with trade agreements.

Promoting U.S. Exports

The Commerce Department does not finance exports but plays a lead role in federal efforts to promote exports. Commerce's ITA had a 1994 budget of about $287 million and a staff of around 2,400 people. Three of ITA's four organizational units–the U.S. Commercial Service (USCS),[2] International Economic Policy ("country desks"), and Trade Development ("industry desks")–provide a variety of export information and facilitation services for exporters of manufactured goods and services.[3] In particular, USCS is composed of overseas and domestic offices. Its worldwide network has 134 overseas offices in 69 countries that provide a variety of services to U.S. business. Commerce's domestic network of 73 district offices and export centers serves as a key link between U.S. businesses and the overseas offices. In addition to ITA, Commerce's U.S. Travel and Tourism Administration is involved in a specific type of export promotion activity–promoting foreign tourism in the United States, with a budget of about $20 million and staff of about 90 people.

The Secretary of Commerce chairs the Trade Promotion Coordinating Committee (TPCC), an interagency group that, since 1992, has been required by statute to develop a governmentwide strategy for rationalizing the federal government's nearly $3 billion in federal export programs. (See app. V for a list of TPCC member agencies, which includes USTR). These programs involve efforts to provide export financing; export-related information, such as market research and trade leads; export "facilitation" services, such as business counseling; and other support services, such as trade missions and advocacy (i.e., support by top-level federal officials) on behalf of U.S. exporters.

In May 1995 testimony,[4] we reviewed various rationales that have been put forward as a basis for the federal government's role in promoting the sale of U.S. exports. Supporters of government assistance to exporters hold that "real world" deviations from the conditions necessary to make markets work efficiently (i.e., "market failures") provide a strong justification for such programs. Supporters also cite trade policy objectives, such as combating foreign export price subsidies, as justification for government support for

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[2]Formerly the U.S. and Foreign Commercial Service.

[3]Commerce's export promotion programs involve offering business counseling, training, and help with finding overseas representation, as well as providing market research information, trade mission, and trade fair opportunities.

[4]See Export Promotion: Rationales for and Against Government Programs and Expenditures (GAO/T-GGD-95-169, May 23, 1995).

exporters. Opponents hold that the government cannot do better than the market and that government intervention can make a bad situation even worse.

Of TPCC's 19 members, 3 agencies--USDA, Commerce, and the Eximbank--represented over 90 percent of federal spending on export promotion in fiscal year 1994. USDA is the most prominent of the export promotion agencies, having spent about $2 billion in fiscal year 1994 for export information and export facilitation services and financing exports of agricultural products. The Eximbank obligated about $980 million during fiscal year 1994 for its export loan, loan guarantee, and insurance programs, and related administrative costs. Commerce spent the least of the three agencies--about $233 million in fiscal year 1994--on export promotion-related activities, mostly through ITA.

Regulating Trade

Commerce's responsibilities in regulating trade include licensing exports, administering countervailing duty and antidumping laws, and implementing import restrictions, under various trade statutes. Similarly, under other trade statutes USTR investigates unfair foreign trade practices (with the help of Commerce) that can result in sanctions against foreign suppliers.

Commerce shares responsibility for export control licensing with the Department of State. Commerce's Bureau of Export Administration (BXA) licenses the export of civilian products that may have military applications (so-called "dual-use" goods), while the State Department licenses the export of military goods. For dual-use items, Commerce is responsible for receiving applications, reviewing them, referring them to other agencies when appropriate (such as the Departments of Defense and State), receiving advice back from them, and conducting dispute resolution proceedings if there is no consensus. Disagreements between agencies on export control issues are to be dealt with through an interagency process. BXA also has a staff responsible for investigating violations of export control laws. BXA had a 1994 budget of about $37 million and a staff of around 375 people.

Commerce shares responsibility with the International Trade Commission (ITC) for administering countervailing duty and antidumping laws that protect the U.S. market from unfair imports. Under these laws, the U.S. government can place a duty on imports of goods that are being unfairly subsidized or "dumped" (i.e., unfairly sold below market prices) in the United States to the detriment of U.S. firms. ITA's Import Administration[5] is responsible for determining whether subsidization or dumping has taken place while, in a parallel proceeding, ITC seeks to determine whether injury or the threat of injury has occurred to U.S. firms as a result of the subsidies or dumping. If subsidization or dumping and injury exist, then duties are to be imposed on the importers.

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[5]Commerce's Import Administration unit also administers other import programs, such as those under the machine tool and semiconductor agreements with Japan.

Another form of trade regulation is other import restrictions. For example, Commerce chairs the interagency Committee for the Implementation of Textile Agreements (CITA), which includes USTR as well as the Departments of State, the Treasury, and Labor. ITA's Office of Textiles and Apparel has a staff of about 40 that supports CITA's operations, including monitoring textile imports and domestic production data. Since its establishment in 1972, CITA has supervised the implementation of textile agreements and proposed and implemented textile and apparel import restraints. It currently is charged with overseeing the GATT Uruguay Round Agreement on Textiles and Clothing, which provides for the integration of textile and apparel products into normal trade rules by 2005 and allows the imposition of interim import restraints.

USTR has a role in regulating imports as well. USTR performs investigations into other unfair trade practices, such as those that restrict U.S. business access to foreign markets. Under section 301 of the Trade Act of 1974 (Public Law 93-618, Jan. 3, 1975), as amended, USTR can investigate alleged unfair trade practices and recommend imposing import restrictions on the goods and services of foreign countries that are using unfair practices that are found to harm U.S. interests. USTR looks to Commerce to generate much of the information and analyses that serve as the basis for these investigations and, in some cases, to administer resulting sanctions.

Trade and Investment Data Collection, Analysis, and Dissemination

Several federal agencies collect, analyze, and disseminate international trade and investment data that serve as input both for federal decisions on trade matters and business decisions on exporting and importing. The Treasury Department's Customs Service generates basic trade data from documents provided by importers and exporters. Within Commerce, the Bureau of the Census, the National Technical Information Service, and the Bureau of Economic Analysis (BEA) compile current statistics on exports, imports, shipping, and investment. Several agencies, including the Departments of Agriculture, Commerce, Labor, the Treasury, and ITC, analyze and disseminate this information. USTR issues reports that use information from these and other sources.

INTERAGENCY MECHANISMS ARE USED TO COORDINATE TRADE ACTIVITIES

Federal agencies execute U.S. trade responsibilities through an extensive network of formal and informal interagency relationships. In trade policy, federal agencies have used a long-standing interagency process to reach consensus on trade issues. In export promotion, federal agencies use a fairly new and, as a result, still evolving interagency process to integrate their export strategies and coordinate their activities. In trade regulation (e.g., antidumping and countervailing duties and export controls) and trade data collection and dissemination, fewer agencies are involved and, with regard to the former, the laws and regulations more clearly delineate responsibilities.

On the basis of recent work in three of these areas–trade policy; export promotion; and trade data collection, analysis, and dissemination–I would like to share with you our views on these interagency mechanisms.

Trade Policy

In the area of trade policy, the interagency decision-making process has evolved over a 20-year period into a sophisticated mechanism for transforming the often-disparate views of multiple agencies into a uniform U.S. trade policy. The primary agencies involved in this process are USTR, COmmerce, State, Treasury, USDA, and Labor.

Our work on international trade agreements also highlighted the importance of monitoring and enforcing foreign government compliance with their commitments in order to ensure that U.S. firms obtain anticipated benefits. Despite negotiating successes, our past work demonstrates that the federal agencies responsible for monitoring and enforcing trade agreements–primarily USTR, Commerce, and State–often experienced difficulty with their implementation, which can require substantial investments of resources and coordination among agencies. For example, we reported on monitoring and enforcement problems with respect to the GATT Tokyo Round Government Procurement Agreement, Voluntary Restraint Agreements on steel and machine tool imports, and the U.S.-European Union Civil Aircraft agreement.[6] The need to improve enforcement was recently recognized by the executive branch when earlier this year the Under Secretary of Commerce for International Trade proposed creating a new office to monitor trade agreements and strengthen this function.

Export Promotion

In export promotion, the interagency decision-making mechanism remains in its formative stages. During 1991-92, we reported that the federal export promotion effort was fragmented among numerous agencies and lacked any governmentwide strategy or priorities. We stated[7] that federal efforts in this area suffered from inefficiency, overlap, duplication, and apparent funding anomalies that increased costs and undermined the effectiveness of export promotion activities. For example, the federal government at the

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[6]See, for instance, The International Agreement on Government Procurement: An Assessment of Its Commercial Value and U.S. Government Implementation (GAO/NSIAD-84-117, July 16, 1984); International Procurement: Problems in Identifying Foreign Discrimination Against U.S. Companies (GAO/NSIAD-90-127, Apr. 5, 1990); International Trade: Administration of Short Supply in Steel Import Restraint Agreements (GAO/NSIAD-89-166, June 5, 1989); and International Trade: Long-Term Viability of U.S.-European Union Aircraft Agreement Uncertain (GAO/GGD-95-45, Dec. 19, 1994).

[7]See, for example, Export Promotion: Federal Programs Lack Organizational and Funding Cohesiveness (GAO/NSIAD-92-49, Jan. 10, 1992); and our August 1992 testimony, Export Promotion: Federal Approach Is Fragmented (GAO/GGD-92-68, Aug. 10, 1992).

time maintained a fragmented and inefficient service delivery network that likely confused and discouraged U.S. firms that were seeking export assistance.

In October 1992, Congress passed legislation to address these problems. Title II of the Export Enhancement Act of 1992 (Public Law 102-429, Oct. 21, 1992) created an interagency mechanism through which the administration, working closely with Congress, might strengthen federal efforts to promote exports. This legislation codified the interagency TPCC and tasked it to issue a report by September 30, 1993, (and annually thereafter) describing a governmentwide strategic plan for federal export promotion activities and its implementation. The strategy was to articulate governmentwide federal export promotion priorities and present a unified budget proposal to the President based on those priorities.

We have monitored TPCC activities since passage of the legislation. USDA, which commands by far the largest portion of the federal export promotion budget, at least initially withheld full participation in TPCC deliberations. Even those agencies fully participating are experiencing difficulty blending their separate views into a unified export promotion strategy. In testimony,[8] we characterized the TPCC's first annual report, issued September 30, 1993, as a work in progress. This annual report, as well as the 1994 update, did not establish governmentwide export promotion priorities nor a unified export promotion budget proposal. We believe that both are necessary to move the interagency coordination process forward as a vehicle for improving the effectiveness and efficiency of federal export promotion efforts.

Despite the absence of governmentwide priorities and a unified budget proposal, the TPCC reports contained 65 recommendations for improving federal export promotion efforts. These included several recommendations for major improvements, as well as many others that called for incremental innovations that, if taken together, would add to meaningful change. Several are well into implementation, such as (1) establishment of a federal advocacy center and network through which high-level federal officials can intercede on behalf of U.S. firms seeking export contracts and (2) creation of a network of U.S. Export Assistance Centers, which combines the domestic service delivery networks of Commerce, the Eximbank, and SBA into "one-stop shops."

Trade and Investment Data Collection, Analysis, and Dissemination

A number of federal agencies are responsible for collecting international trade and investment data. Laws and regulations to protect confidentiality restrict sharing of data, both within and among agencies. A recent initiative to create interagency ties has

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[8]See Export Promotion Strategic Plan: Will It Be a Vehicle for Change? (GAO/T-GGD-93-43, July 26, 1993); Export Promotion: Initial Assessment of Governmentwide Strategic Plan (GAO/T-GGD-93-48, Sept. 29, 1993); and Export Promotion: Governmentwide Plan Contributes to Improvements (GAO/T-GGD-94-35, Oct. 26, 1993).

improved the quality of federal information on foreign direct investment in the United States (FDIUS). Commerce is the principal federal agency responsible for collecting data on FDIUS. To improve the quality of these data and enhance analysts' ability to assess the impact of that investment on the U.S. economy, the Foreign Direct Investment and International Data Improvements Act of 1990 (Public Law 101-533, Nov. 7, 1990) was enacted. This legislation authorized Commerce's BEA to share confidential data on FDIUS with Commerce's Bureau of the Census and the Department of Labor's Bureau of Labor Statistics (BLS), and authorized Census to share data with BEA.

Without imposing any additional reporting burdens on survey respondents,[9] the agencies involved have generated new data that provide a richer description of the characteristics and operations of affiliates of foreign firms operating in the United States and should enable analysts to draw more meaningful comparisons between such affiliates' operations and those of U.S. firms. For example, by comparing the market and employment shares of foreign-owned establishments with those of U.S. establishments, Commerce has been able to respond to concerns about the possibility that foreign investors might be acquiring a disproportionate amount of ownership in certain U.S. industries.

ISSUES CONCERNING THE IMPACT OF CREATING A U.S. TRADE ADMINISTRATION

I would like to make a few general comments about the current process before I comment on specific provisions in the proposed bill. The system I have just described does work. For example, trade agencies have used the current interagency decision-making process to attain several major achievements. Chief among these achievements has been the successful conclusion of the negotiations leading to NAFTA and the GATT Uruguay Round agreements. We have reported[10] that, while these accords were extremely complex and difficult to negotiate, both can be expected to benefit the United States.

Recent proposals calling for the elimination of the Commerce Department and creating a U.S. Trade Administration provide Congress and the administration with both a challenge and an opportunity. The challenge is to determine if the programs and activities can be reorganized in a manner that does not harm the government's ability to carry out necessary functions and achieve congressionally mandated policy goals. The opportunity lies in the chance to take a fresh look at all of the government's trade programs and activities and to enhance their efficiency and cost-effectiveness.

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[9]Data provided by Commerce and BLS officials show that from 1991 to 1995, the BEA-Census and BEA-BLS data link projects have been conducted at an average annual cost of about $1.2 million.

[10]See North American Free Trade Agreement: A Focus on the Substantive Issues (GAO/T-GGD-93-44, Sept. 21, 1993); and International Trade: Observations on the Uruguay Round Agreement (GAO/T-GGD-94-98, Feb. 22, 1994).

We have previously raised issues for consideration about how some provisions of other legislation could affect the conduct of certain trade responsibilities. For example, we raised the issue about how the Department of Commerce Dismantling Act (H.R. 1756, 104th Cong.) would affect trade policy-making and negotiating by eliminating a part of Commerce that helps USTR. It would deprive USTR of much of the analytic support that it needs to formulate trade policy and negotiating strategies.[11] Similarly, we raised the issue about how that proposed legislation could alter the current balance between foreign policy, national security, and commercial interests in the administration of export controls for dual-use civilian products.

H.R. 2124
Presents Opportunities

The Trade Reorganization Act of 1995, introduced by Congressman John Mica, addresses many of the issues we raised about earlier legislative proposals. The bill consolidates existing trade functions into a USTA, whose head would have cabinet-level status. The new organization would be an independent, executive branch agency but not a cabinet department. The bill combines the responsibilities of the Office of the U.S. Trade Representative; Commerce's ITA and BXA; functions related to the National Trade Data Bank (from the Economic and Statistical Administration); and the now-independent TDA.

The proposal presents new opportunities for managing U.S. government trade responsibilities more efficiently. Combining the trade functions of three existing agencies (USTR, parts of Commerce, and TDA) under one new organization could help rationalize the current fragmented organizational approach and may reduce the difficulties associated with establishing and implementing uniform policies across different U.S. government organizations. For example, under the current system Commerce's overseas commercial officers provide most of the field support for TDA (which has no overseas staff) and USTR (which only has staff in two overseas posts). Furthermore, Commerce's staff in the Office of International Economic Policy and Office of Trade Development devote nearly one half of their time to supporting USTR's trade policy activities, according to a 1993 report by Commerce's Inspector General.[12] In addition, Commerce helps administer the private-sector industry advisory groups that are part of the trade policy process. In sum, combining Commerce, TDA, and USTR within a single organization could yield benefits from the closer integration of the staff currently responsible for trade policy and trade promotion.

Some policymakers have expressed concern about combining disparate functions of USTR and Commerce in one agency. Specifically, they are concerned about whether one agency

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[11]See Commence's Trade Functions (GAO/GGD-95-195R, June 26, 1995).

[12]Assessment of Commerce's Efforts in Helping U.S. Firms Meet the Export Challenges of the 1990s, U.S. Department of Commerce, Office of Inspector General, IRM-4523 (Washington, D.C.: U.S. Government Printing Office, Mar. 17, 1993), pp. 31-7.

can both negotiate trade agreements and promote U.S. exports without detriment from competing and conflicting interests. Past experience has shown that one agency can successfully do both. Commerce and Agriculture currently promote U.S. exports and participate in, and even lead, trade negotiations. However, the new organization would change how policy differences between interests currently represented by USTR and Commerce would be resolved in the future. Some differences that have been addressed in inter-agency forums in the past would now be addressed in an intra-agency forum. However, where responsibilities and policies conflict, as they have in the past, we see no reason these could not be resolved within USTA.

H.R. 2124 Also
Raises Issues

While we believe that H.R. 2124 addresses many of the issues we identified in earlier proposals, some issues still remain. First, in light of the importance that Congress has attached to trade, Congress may wish to consider whether the new agency should be a cabinet-level department. Creation of a trade "administration" could lead to a perception that the new agency does not have the status of either USTR, which is in the Executive Office of the President, nor of the cabinet-level Department of Commerce. Similarly, the same issue arises with respect to the proposed position and title of the head of the agency, "U.S. Trade Representative/Administrator." This title may create a perception among foreign officials that the head of the new agency does not have the same clout as either the current U.S. Trade Representative (because he/she would no longer be part of the Executive Office of the President) or the Secretary of Commerce. Furthermore, carrying over the title of the U.S. Trade Representative from the former office to the new organization does not convey the full range of responsibilities with which the new position has been charged, including those related to export promotion, export controls, and import administration programs and issues.

Second, the proposal combines the trade functions of only three U.S. government agencies–Commerce, USTR, and TDA–and does not address opportunities for consolidating the functions of the other U.S. government agencies that carry out significant trade responsibilities. One approach Congress might consider for exploring such opportunities would be to task the President to report to the Congress on opportunities to improve the cost-effectiveness of federal government trade programs through further consolidation of trade agencies and programs, such as those of USDA, SBA, and State.

For example, such a report could address the following questions:

– Can the overseas operations of the USDA's Foreign Agricultural Service and Commerce's USCS, both of which promote U.S. exports, be combined into a single service that would be more cost-effective?

- - Can the U.S. government's various international credit, insurance, and guarantee programs be consolidated into one agency? Currently these services are provided

by several agencies (the Eximbank, SBA, USDA's Commodity Credit Corporation, and the Overseas Private Investment Corporation).

- - To what extent do the activities of the State Department's Bureau of Economic and Business Affairs overlap and duplicate USCS activities, and how can any identified duplication be eliminated?

- - Are there opportunities to improve the effectiveness of the congressionally mandated public and private sector advisory committees?

Third, sec. 222(1)(A) of the bill transfers those functions exercised by USCS in foreign nations from Commerce to USTR but does not transfer the functions of the USCS' domestic network. An issue for consideration raised by this provision stems from the fact that the domestic office staff serve as an important link between U.S. businesses seeking information and analysis on foreign country markets and overseas Commerce posts. Domestic offices (as well as the country and industry experts in Washington) also help organize and recruit companies for overseas trade missions and trade events. Thus, by not transferring the USCS' domestic network to the new agency, the bill appears to sever the link between U.S. businesses and Commerce's foreign posts without providing an alternative mechanism for performing these functions.

Additional Observations

Finally, we have several additional observations about the organizational structure that would be created under H.R. 2124. The bill (sec. 211(c)) creates a Deputy Administrator responsible for all USTA functions except for those exercised by the Deputy U.S. Trade Representatives, the Inspector General, and the General Counsel. We interpret this to mean that the Deputy Administrator and the Deputy U.S. Trade Representatives would have direct access to the head of the agency. Furthermore, the bill (sec. 213) provides for three Assistant Administrators reporting to the Deputy Administrator. Thus, the Deputy Administrator would supervise many of the current functions performed by the Under Secretary for International Trade. These changes prompt the following issues.

- - The bill would demote the head of BXA from the current Under Secretary level by making the position one of the three Assistant Administrators. This would diminish the office's status relative to the Departments of Defense and State for purposes of interagency coordination of export control issues. Administering the export licensing of dual-use commercial products has always involved a careful balancing of national security, foreign policy, and commercial interests. Therefore, an issue for consideration is whether placing this authority at a lower level would alter the necessary balancing of interests. In the Export Administration Amendments Act of 1985 (50 U.S.C. app. 2401), Congress sought to increase the competitiveness of U.S. exports and to lessen the burden from export licensing on U.S. business. As part of this effort, BXA was removed from ITA, and its chief was elevated to the level of Commerce Department Under Secretary.

- - The role and responsibilities of the Deputy Administrator position are unclear. The Deputy Administrator position could have responsibilities largely management in nature, serving as a "Chief Operating Officer" for USTA; this would allow the U.S. Trade Representative to continue to focus on policy issues.[13] However, if the Deputy Administrator is to be the Chief Operating Officer, he/she does not appear to have clear authority over and responsibility for the staff of the Deputy U.S. Trade Representatives. Alternatively, if the Deputy Administrator is to be primarily in a policy-making role, the position may be redundant. Options for consideration include clarifying the Deputy Administrator's responsibilities or making the planned organizational structure flatter by eliminating the Deputy Administrator position and having the Assistant Administrators for Export Administration, Import Administration, and Trade Policy and Analysis, and the Director General for Export Promotion[14] all report directly to the U.S. Trade Representative/Administrator.

- - The bill (sec 202(f)) would make the U.S. Trade Representative chairperson of TPCC. Thus, Congress could, if it so chooses, use this legislation to strengthen the TPCC interagency process we discussed earlier. For example, the authority given the new USTA could be made stronger to help ensure that all members fully participate and that the committee establishes a set of governmentwide priorities and a unified export promotion budget proposal.

CONCLUSIONS

The Trade Reorganization Act of 1995 presents new opportunities for managing U.S. government trade responsibilities more efficiently by combining the trade functions of USTR, parts of Commerce, and TDA under one new organization. However, the proposal combines the trade functions of only three U.S. government agencies and does not address opportunities for consolidating the functions of the many other U.S. government agencies that carry out significant trade responsibilities. Congress may wish to explore

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[13]The bill does not assign administrative functions like budget, personnel, and information resource management. The bill does create a Chief Financial Officer that reports to the Deputy Administrator, but as noted previously, the Deputy Administrator appears to have no responsibilities for functions under the Deputy U.S. Trade Representatives, the Inspector General, and the General Counsel. The Assistant Administrators, Director General, and Deputy U.S. Trade Representatives would have responsibilities for budgets, staff, and field networks that currently vary significantly in size. Administrative functions could be centralized or decentralized.

[14]Sec. 211(c) places all USTA functions with the Deputy Administrator except for those exercised by the Deputy U.S. Trade Representatives, the Inspector General, and the General Counsel. Thus, the section appears to place the Director General under the Deputy Administrator. However, sec. 214(b) places the Director General for Export Promotion directly under USTR, with the status and rank of ambassador, similar to the Deputy U.S. Trade Representatives.

additional opportunities for consolidation to reduce costs and to improve the formulation and implementation of U.S. government trade programs. As one approach to this end, Congress could task the President in legislation like H.R. 2124 to report to Congress within a specified deadline on what other possible opportunities exist for further consolidation that could improve program effectiveness and achieve budgetary savings.

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Mr. Chairman, this concludes my prepared statement. I would be pleased to try to answer any questions you or other Members of the Committee may have.

TRADE-RELATED FUNCTIONS OF THE FEDERAL GOVERNMENT

One way to categorize the federal government's international trade-related activities is to divide them into four primary groups: trade policy; export promotion; trade regulation; and trade and investment data collection, analysis, and dissemination.

1. Trade Policy

Agencies involved include the U.S. Trade Representative (USTR); and the Departments of Agriculture, Commerce, Treasury, State, and Labor. Activities include the following:

A. Working through an interagency process to formulate and coordinate international trade or investment policies, and coordinating those policies with domestic policies and with U.S. business and consumer interests and state and local governments.

B. Negotiating international trade or international investment agreements.

C. Funding and representing U.S. interests in trade-related international organizations.

D. Monitoring and enforcing other countries' compliance with trade agreements.

2. Export Promotion

Agencies involved include the Departments of Agriculture (USDA), Commerce, Energy, and State; the U.S. Export-Import Bank (Eximbank), the Overseas Private Investment Corporation; the Trade and Development Agency (TDA); and the Small Business Administration (SBA). Activities include the following:

A. Formulating and coordinating export promotion policy.

B. Combating foreign export subsidies.

C. Financing and insuring U.S. trade or U.S. investments in other countries, or funding feasibility studies on major infrastructure and development projects.

D. Providing "trade facilitation" services to the public, such as export counseling, foreign market analyses, or trade missions or trade fairs.

E. Providing government-to-government advocacy on behalf of U.S. businesses.

F. Developing foreign markets for U.S. goods and services.

G. Providing tourism promotion services and formulating and coordinating tourism policy.

3. **Trade and Investment Regulation**

Agencies involved include USDA, Commerce, Defense, Justice, Labor, State, and the Treasury; and the International Trade Commission (ITC). Activities include the following:

A. Licensing and restricting exports, imports, or foreign investments in the United States for national security, foreign policy, or short supply reasons.

B. Inspecting exports or imports for health, safety, or certain other reasons.

C. Enforcing U.S. laws on illegal drugs, money laundering, counterfeit goods, and other cross-border activities.

D. Enforcing U.S. laws that seek to protect U.S. companies or workers from "unfair" or harmful foreign trade practices, such as antidumping and countervailing duties laws; and providing financial assistance to offset such harm, such as trade adjustment assistance.

E. Enforcing U.S. rights under trade agreements and responding to certain foreign practices (secs. 301-310 of the Trade Act of 1974, as amended.)

F. Enforcing U.S. antiboycott laws and the Foreign Corrupt Practices Act of 1977, as amended (15 U.S.C. sec. 78dd-1).

G. Administering foreigners' blocked assets in the United States or adjudicating U.S. citizens' claims against foreigners.

4. **Trade and Investment Data Collection, Analysis, and Dissemination**

Agencies involved include USDA, Commerce, Labor, and the Treasury; and ITC. Activities include the following:

A. Documenting and tracking trade and investment transactions and maintaining U.S. tariff schedules.

B. Analyzing or distributing trade and investment data to government decisionmakers or to the public.

5. **Other Trade-Related Functions**

Agencies involved include the Departments of Commerce, Justice, State, and the Treasury; and the Federal Reserve System. Activities include the following:

A. Issuing patents and registering trademarks.

B. Developing and maintaining information on U.S. product standards.

C. Regulating the banking activities of subsidiaries of foreign companies in the United States and subsidiaries of U.S. companies located abroad.

D. Enforcing U.S. antitrust laws that affect U.S. companies' ability to trade or invest abroad.

E. Adjudicating disputes over traded goods (e.g., ITC's "section 337" cases).

F. Collecting customs duties and fees.

G. Taxing U.S. persons or corporations overseas or foreign persons or corporations that owe U.S. taxes.

Sources: Budget of the U.S. Government for Fiscal Year 1996 (Washington, D.C.: U.S. Government Printing Office, 1995); Federal Staff Directory 1993/1 (Mount Vernon, Virginia: Staff Directories, Ltd., 1993); Export Programs: A Business Directory of U.S. Government Services, Trade Promotion Coordinating Committee (Washington, D.C.: U.S. Government Printing Office, 1995).

OTHER U.S. GOVERNMENT AGENCIES INVOLVED IN INTERNATIONAL TRADE

We discuss in the following paragraphs the major trade agencies other than USTR and Commerce, and some of their responsibilities. We have not undertaken to catalogue the tasks or offices within each agency that deal in some way with international trade issues.

1. USDA administers a number of trade programs that are intended to enhance the competitiveness of U.S. exporters of agricultural products. These programs include the concessional (i.e., below market interest rate) sales program, export credit guarantee programs, and export promotion programs. The agency also provides input and expertise to U.S. negotiators and policymakers on matters of agricultural trade.

2. The Department of State participates in the formulation of U.S. trade policy by bringing its foreign policy perspective to bear on trade issues. The State Department also licenses the export of military goods.

3. The Department of the Treasury has responsibility for international monetary affairs, international finance and investment, and coordination of U.S. policies regarding international financial institutions such as the International Monetary Fund and the World Bank. Within the Department, the U.S. Customs Service is charged with collecting import duties and enforcing the hundreds of laws or regulations relating to international trade.

4. The Departments of Labor, Defense, Transportation, Energy, and Justice, and the Environmental Protection Agency offer support and expertise that are used to formulate and coordinate international trade policies or negotiations. For example, the Department of Labor conducts research on trade-related employment issues. A provision of the Omnibus Trade and Competitiveness Act of 1988 (Public Law 100-418, Aug. 23, 1988) requires the Secretary of Commerce, in consultation with the Secretary of Energy, to undertake a comprehensive review to assess whether existing statutory restrictions on the export of crude oil produced in the United States are adequate to protect the energy and national security interests of the United States.

5. Eximbank is an export credit agency responsible for promoting and facilitating U.S. exports. Eximbank provides financing assistance for exporters through direct loans, loan guarantees, and export insurance. In addition, the agency administers a tied-aid capital projects fund to match export subsidies provided for foreign competitors.

6. ITC conducts studies and investigations relating to international trade, including determining whether U.S. industries have been injured or threatened with injury by reason of imports alleged to have been supported by subsidies or to have been "dumped" on the U.S. market. ITC determinations parallel the subsidies or dumping investigations conducted by the Department of Commerce.

7. The Overseas Private Investment Corporation was created to mobilize and facilitate the participation of U.S. private capital and skills in the economic and social development of developing countries, thereby complementing the development assistance objectives of the United States. The agency indirectly promotes U.S. exports by providing insurance and guarantees for U.S. investment in the markets of developing countries.

8. SBA, in cooperation with the Department of Commerce and other relevant federal agencies, engages in export promotion on behalf of small businesses. SBA provides export-financing assistance to small businesses.

9. TDA was established as a separate agency in 1988 to promote U.S. private sector participation in development projects in developing and middle-income countries. TDA provides grants for U.S. firms to prepare engineering and design studies of bilateral and multilateral development projects in foreign markets.

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Assistant to the President for Economic Policy
Assistant to the President for Science and Technology Policy
National Security Advisers

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Department of Defense
Department of Energy
Department of Health and Human Services
Department of the Interior
Department of Justice
Department of Labor
Department of State
Department of Transportation
Department of the Treasury
Council of Economic Advisers
Environmental Protection Agency
International Development Cooperation Agency
National Economic Council/National Security Council
Office of Management and Budget
U.S. ITC (as an observer at TPRG
meetings and a nonvoting member of TPSC)

APPENDIX V

MEMBERS OF THE TRADE PROMOTION COORDINATING COMMITTEE

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Department of Defense
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Department of Agriculture
Department of Labor
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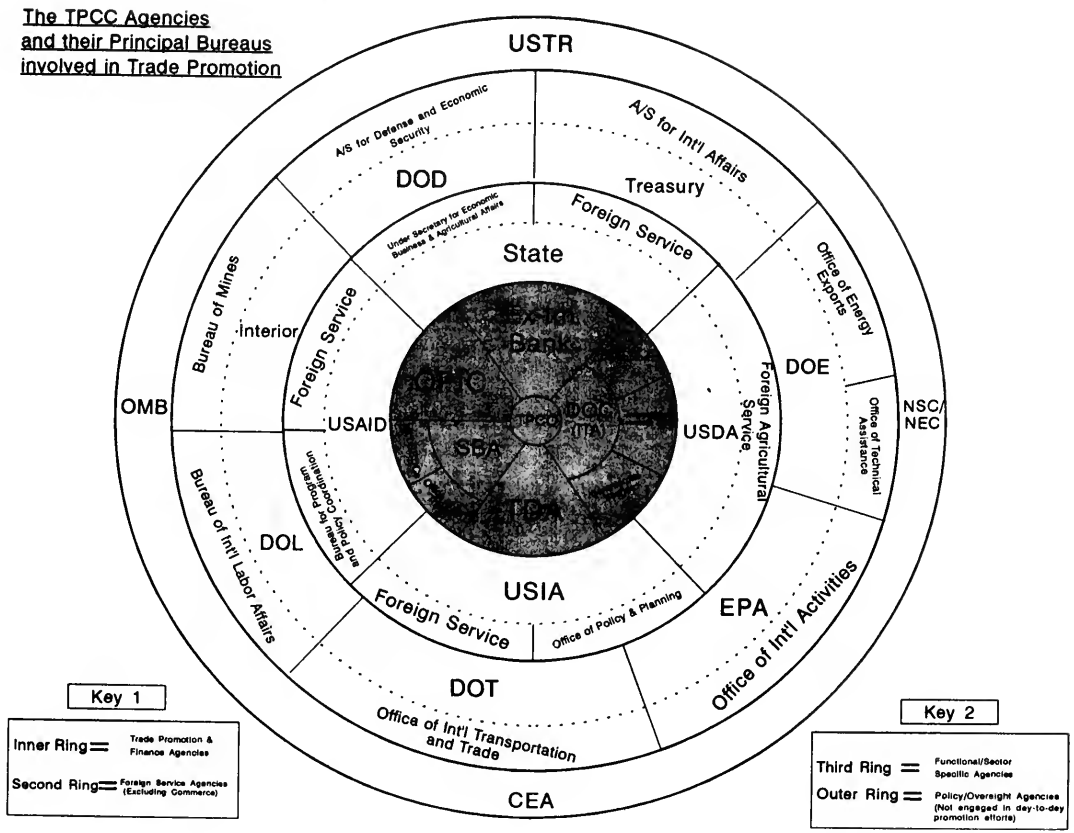
The TPCC Agencies
and their Principal Bureaus
involved in Trade Promotion
USTR
A/S for Defense and Economic Security
DOD
A/S for Int'l Affairs
Treasury
Foreign Service
State
Under Secretary for Economic Business & Agricultural Affairs
Office of Energy Exports
DOE
NSC/
NEC
Office of Technical Assistance
Foreign Agricultural Service
USDA
Office of Policy & Planning
EPA
Office of Int'l Activities
DOT
Office of Int'l Transportation and Trade
CEA
USIA
Foreign Service
Bureau for Program and Policy Coordination
DOL
Bureau of Int'l Labor Affairs
OMB
Bureau of Mines
Interior
Foreign Service
USAID
Ex-Im Bank
OPIC
TPCC
DOC
ITA
SBA
Key 1
Inner Ring = Trade Promotion & Finance Agencies
Second Ring = Foreign Service Agencies (Excluding Commerce)
Key 2
Third Ring = Functional/Sector Specific Agencies
Outer Ring = Policy/Oversight Agencies (Not engaged in day-to-day promotion efforts)

ALLAN I. MENDELOWITZ

Allan I. Mendelowitz is an official of the U.S. General Accounting Office and has been with GAO since 1976. He is the Managing Director for International Trade, Finance, and Competitiveness Issues, and is responsible for all of GAO's work on international trade, finance and competitiveness programs, policies, and agencies. Work in this area includes, by way of example, reviews of U.S. participation in bilateral and multilateral trade agreements, export promotion programs, foreign direct investment, administration of countervailing duty and antidumping laws, analysis of foreign exchange markets, issues in industrial policy and competitiveness. Previously, Dr. Mendelowitz was the representative of the Comptroller General on the staff of the Chrysler Corporation Loan Guarantee Board, and Assistant Director of the Program Analysis Division working on government regulation. Prior to joining GAO, Dr. Mendelowitz was a Brookings Institution Economic Policy Fellow (1975-1976), and on the faculty of the economics department of Rutgers University (1970-1975).

Dr. Mendelowitz received his B.A. degree in economics from Columbia University in 1966 and his Ph.D. in economics from Northwestern University in 1971. Articles by him have appeared in the Journal of Policy Analysis and Management, the National Tax Journal, the Journal of Business, the GAO Journal, and others. In addition, Dr. Mendelowitz has been a frequent witness before congressional committees testifying on the findings and conclusions of the work of the General Accounting Office on international trade and finance issues and programs.

Dr. Mendelowitz is married and has two children.

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United States
General Accounting Office
Washington, D.C. 20548

General Government Division

B-261618

June 26, 1995

The Honorable Donald A. Manzullo
Chairman
Subcommittee on Procurement, Exports,
and Business Opportunities
Committee on Small Business
House of Representatives

Dear Mr. Chairman:

As Congress considers how to downsize the federal government, many of the proposals being reviewed would involve terminating federal functions and agencies. Several proposals would abolish the Department of Commerce and, in the process, eliminate some of its component parts and relocate others to various parts of the government. Abolishing the Commerce Department would have significant implications for the operations of the federal government's trade programs and responsibilities, even if all of Commerce's trade operations were to be removed to other agencies.

You asked us to provide some insights into how Congress could consolidate federal trade activities were the Commerce Department to be abolished. This letter responds to your request by (1) reviewing the role that Commerce plays in trade, (2) discussing two past efforts to reorganize federal trade activities and their implications for today's debate, (3) commenting on some of the proposals that have been made for reorganizing Commerce's trade functions, and (4) presenting some principles that Congress may wish to use to guide it in this debate.

This letter is based on more than a decade of GAO work covering a wide variety of trade-related issues. These involved export promotion, including the programs of the Commerce Department and the U.S. Department of Agriculture (USDA); major trade negotiations and agreements, such as

the North American Free Trade Agreement (NAFTA) and the General Agreement on Tariffs and Trade (GATT); trade regulation, including antidumping and countervailing duty matters; and other issues. Because this letter is based on prior work, we did not obtain agency comments.

COMMERCE'S ROLE IN FEDERAL TRADE ACTIVITIES

The Commerce Department is a major participant in many of the federal government's trade activities. (See enclosure for a listing of federal trade functions.) Specifically, Commerce plays a significant role in trade policymaking and negotiating, export promotion, trade regulation, and trade data collection and analysis.

The Commerce Department is at the center of federal efforts to promote exports. The Secretary of Commerce chairs the Trade Promotion Coordinating Committee (TPCC), an interagency group that is responsible for developing and coordinating U.S. export promotion programs. This strategy aims to rationalize the federal government's $3.3 billion in federal export promotion expenditures, which include efforts to provide export financing; export-related information; and export "facilitation" services, such as business counseling and training.

Three agencies represented over 90 percent of federal spending on export promotion in fiscal year 1994. USDA spent most of these funds, about $2 billion. USDA provides both export information and export facilitation services, as well as financing to exporters of agricultural products. The Export-Import Bank of the United States (Eximbank) spent about $774 million, on export loans, guarantees, and insurance. The Commerce Department spent about $233 million. Most of this was expended by Commerce's International Trade Administration (ITA). Three of the four organizational units of ITA--the U.S. Commercial Service (USCS),[1] International Economic Policy (IEP--the "country desks"), and Trade Development (TD--the "industry desks")--provide a range of export information and export

[1]Formerly the U.S. & Foreign Commercial Service.

facilitation services for exporters of manufactured goods and services.[2] Commerce has no authority to finance exports. Other federal organizations have smaller export promotion programs: the Trade and Development Agency; the U.S. Information Agency; the Small Business Administration; the Overseas Private Investment Corporation (OPIC); and the Departments of State, Transportation, Energy, Labor, and the Treasury.

Commerce also participates in coordinating, formulating, and implementing U.S. trade policy. Much of U.S. trade policy is developed through a decision-making mechanism comprised of several interlocking interagency committees and related subcommittees, chaired by the U.S. Trade Representative (USTR); and a large number of advisory committees composed of business, labor, and other representatives of the private sector. Commerce staff play important roles on the cabinet-level Trade Policy Committee, sub-cabinet-level Trade Policy Review Group, and staff-level Trade Policy Staff Committee. Also, ITA staff provide much of the information and analysis that support the formulation of trade policy and U.S. strategies for trade negotiations. For example, USTR relied heavily on Commerce's country desk officers to provide region-specific policy analysis support for NAFTA. These staff also participate in some negotiations, coordinate with the private sector advisory committees, and help to monitor other countries' compliance with trade agreements.

Commerce has major responsibilities in trade regulation as well. Commerce shares export control licensing responsibility with the State Department. Commerce's Bureau of Export Administration (BXA) licenses the export of civilian products that may have military applications (so-called "dual use" goods), while the State Department licenses the export of military goods. For dual use items, Commerce is responsible for receiving applications, referring them to other agencies when appropriate (such as

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[2]Although it is not a part of ITA, Commerce's U.S. Travel and Tourism Administration is involved in another type of export promotion activity--promoting foreign tourism in the United States.

the Departments of Defense and Energy), receiving advice back from them, and conducting dispute resolution procedures if there is no consensus. Disagreements between agencies on export control issues are to be dealt with through an interagency process.

Commerce shares responsibility with the International Trade Commission (ITC) for administering countervailing duty and antidumping laws. The U.S. government can place an additional duty on imports of goods that are being unfairly subsidized or "dumped" (i.e., unfairly sold below market prices) in the United States to the detriment of U.S. firms. ITA's Import Administration (IA) unit is responsible for making these determinations. In a parallel proceeding, ITC is to determine whether injury or the threat of injury has occurred to U.S. firms as a result of the subsidies or dumping. If subsidization or dumping and injury exist, then duties are to be imposed on the importers. Commerce's IA unit also administers other import programs, such as those under the machine tool and semiconductor agreements with Japan.

Several organizations in the Commerce Department collect, analyze, and disseminate trade or international investment data. The Census Bureau compiles current statistics on exports, imports, and shipping. Census also prepares and analyzes estimates of U.S. direct investment abroad and foreign direct investment in the United States. Commerce's National Technical Information Service and Bureau of Economic Analysis also work with trade data.

TWO PAST EFFORTS TO REORGANIZE AND REFOCUS TRADE FUNCTIONS

There have been two efforts made in the last 15 years to reorganize and/or refocus federal trade functions. The experience with these efforts is relevant for today's debate on rearranging these activities. The first effort, in 1980, was a major restructuring involving the trade policymaking, export promotion, and trade regulation bureaucracies. The other endeavor, in 1992, was an attempt to sharpen the strategic focus of federal export promotion efforts without resorting to a reorganization.

1980 Trade Reorganization

During the latter part of the 1970s, the U.S. business community expressed concern about the implementation of specific federal trade functions. One concern was over the quality of the State Department's commercial activities overseas. Until 1980, the State Department had primary responsibility for this function. State Department commercial officers at U.S. embassies implemented programs that the Commerce Department in Washington, D.C., designed, managed, and offered to U.S. businesses nationwide.

However, as we reported in 1982,[3] when State had primary responsibility for commercial work abroad the agency accorded it a very low priority, as compared with foreign policy, economic, and consular work. The State Department devoted fewer resources to commercial activities than to other functions and failed to recruit employees with strong commercial experience. State Department employees performing commercial work suffered from low career status and fewer promotions and were often encouraged to work on noncommercial affairs that State considered to be higher priority matters. The State Department's disinterest resulted in poor commercial service for U.S. businesses.

At the same time, the U.S. business community and some Members of Congress questioned the ability of State's commercial officers to vigorously monitor and enforce foreign government compliance with agreements resulting from the Tokyo Round of multilateral trade negotiations under GATT.[4] They expressed concern about potential conflicts of responsibility inherent in having State monitor foreign government compliance with trade agreements as well as maintain diplomatic relations with these governments. They also maintained that the Treasury

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[3]Problems Hamper Foreign Commercial Service's Progress (GAO/ID-83-10, Oct. 18, 1982).

[4]See The International Agreement on Government Procurement: An Assessment of Its Commercial Value and U.S. Government Implementation (GAO/NSIAD-84-117, July 16, 1984).

Department, which at the time administered U.S. antidumping and countervailing duty laws, was not, in practice, fulfilling these responsibilities.

Also, there were concerns that the Office of the Special Trade Representative, as USTR was then known, did not have sufficient authority over trade policymaking within the government to function effectively in all international trade-related negotiations. At the time, for example, the State Department had primary responsibility for several areas of trade negotiations, including commodity and East/West trade negotiations.

Consequently, Congress included in the Trade Agreements Act of 1979 (P.L. 96-39) a provision requiring the President to submit a proposal to reorganize the federal trade bureaucracy. The reorganization was to result in the upgrading of commercial programs and commercial attaches overseas to ensure that U.S. trading partners were meeting their trade agreement obligations. The act also required the President to "consider" strengthening the coordination and functional responsibilities of the Special Trade Representative's Office. The administration responded with Reorganization Plan No. 3 of 1979.

The Administration's Plan Reorganized Multiple Trade Functions

Reorganization Plan No. 3 made three major changes to the structure and functioning of the federal trade bureaucracy. First, it transferred from the State Department to the Commerce Department primary responsibility for overseas commercial work. Second, it moved responsibility for administering antidumping and countervailing duty laws from the Treasury Department to Commerce. Third, the plan renamed the Office of the Special Trade Representative the Office of the U.S. Trade Representative, and enhanced its status. Under the plan, USTR was made responsible for developing and coordinating U.S. international trade policy, including commodity and trade-related investment matters. The plan further provided that USTR should have lead responsibility for conducting international trade negotiations, including representing the United States in GATT matters, trade and commodity matters considered in the

Organization for Economic Cooperation and Development and the United Nations Conference on Trade and Development, and East-West trade negotiations. Moreover, the plan designated USTR as the principal adviser to the President on international trade policy, as vice chairman of OPIC, and as a nonvoting member of the Board of Directors of the Eximbank.

1992 Creation of the Trade Promotion Coordinating Committee

Twelve years after the 1980 reorganization, Congress acted to change the operations of one of the government's trade functions. However, the concerns involved only one trade function--export promotion--and the solution that was attempted stopped short of a major reorganization.

Congressional concerns in this area were sparked, in part, by a January 1992 GAO report.[5] This report said that federal export promotion activities were fragmented among numerous agencies and lacked any governmentwide strategy or priorities. The report, and subsequent GAO work, found that this fragmentation resulted in inefficiency, overlap, duplication, and apparent funding anomalies that increased costs and undermined the potential success of export promotion activities. For example, we found that in fiscal year 1991 almost 75 percent of export promotion funds went to USDA, even though agricultural exports accounted for only about 10 percent of U.S. exports. Also, three federal agencies maintained separate networks of field offices that provided export assistance, which likely confused and discouraged some U.S. firms from seeking such assistance.

The Export Enhancement Act of 1992

In October 1992, Congress acted to correct this situation. Title II of the Export Enhancement Act of 1992 (P.L. 102-429) statutorily authorized the TPCC and required it to issue an annual report containing "a governmentwide strategic plan for federal trade promotion efforts" and

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[5]See Export Promotion: Federal Programs Lack Organizational and Funding Cohesiveness (GAO/NSIAD-92-49, Jan. 10, 1992).

describing the plan's implementation. The act mandated that this strategy be based on a set of governmentwide priorities and include a unified budget proposal that reflected those priorities.

Both Efforts Addressed Specific Problems Through a Minimally Disruptive Approach

Both the 1980 and 1992 efforts addressed specific problems with the trade bureaucracy in a minimally disruptive way. The 1980 reorganization represented a compromise between those who wanted to create a cabinet-level Department of Trade and those who believed that no such reorganization was needed. Participants debated whether creation of a new cabinet agency was necessary to highlight and symbolize the importance of trade to the United States and strengthen the management of trade activities or whether such a department would only lead to more protectionist trade policies. It was left to the administration to devise a new bureaucratic structure that would realize the objectives of the Trade Agreements Act of 1979.

Similarly, the 1992 statutory authorization of TPCC and the requirement that it develop a governmentwide strategy for export promotion represented an attempt to find a minimally disruptive solution to the problems caused by this function's organizational fragmentation. The Export Enhancement Act did not require the administration to reorganize, or to consider reorganizing, the export promotion function. A key issue, therefore, was whether, with such a mandate, TPCC could overcome interagency disagreements over priorities and funding requirements and bring a true strategic focus to the federal export promotion effort.

COMMENTS ON PROPOSALS TO REORGANIZE COMMERCE'S TRADE OPERATIONS

Proposals calling for the elimination of the Commerce Department provide Congress and the administration with both an opportunity and a challenge. The opportunity lies in the ability to take a fresh look at all of the government's trade programs and activities. The challenge is to determine if the programs and activities can be

better organized in a manner that does not harm the government's ability to carry out necessary functions and permits congressionally mandated policy goals to be achieved in a more administratively efficient manner.

Trade Policy Functions

Formulating trade policy and negotiating trade agreements are core international functions of the federal government. Any reorganization of Commerce's trade apparatus needs to be sensitive to how it might affect the government's abilities to carry out these activities.

We are concerned that one proposal, contained in the Department of Commerce Dismantling Act (H.R. 1756, 104th Cong.), could have a deleterious impact on trade policymaking and negotiating. This proposal would eliminate ITA's country and industry desks. We are concerned that eliminating these offices--IEP and TD--would deprive USTR of much of the analytic support that it needs to formulate trade policy and negotiating strategies for trade agreements. Presently USTR has fewer than 170 people. If it remains this size, it will need to continue to rely on others for this support. IEP and TD staff devote nearly one-half of their time to supporting trade policy activities, according to a 1993 report by Commerce's Inspector General.[6] Were these two organizations to be abolished, it is not clear who would be able to perform this work, including the work that may be required for future trade negotiations, such as expanding NAFTA to other Latin American countries.

Others have proposed transferring the overseas component of USCS to the State Department. This could affect the government's ability to monitor and enforce other countries' compliance with trade agreements. USCS staff

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[6]Assessment of Commerce's Efforts in Helping U.S. Firms Meet the Export Challenges of the 1990s, U.S. Department of Commerce, Office of Inspector General, IRM-4523 (Washington, D.C.: U.S. Government Printing Office, Mar. 17, 1993), pp. 31-7.

overseas, in particular, help with this monitoring. However, as in 1980, a concern may be raised that State would experience a conflict of responsibility between maintaining good diplomatic relations and monitoring foreign government compliance with trade agreements.

Export Promotion

Last month we testified before this Subcommittee on the rationales that generally are used to justify export promotion programs.[7] We said that there is no definitive empirical work that demonstrates unequivocally the net impact on the nation--positive or negative--of these programs. Consequently, debates over government assistance to exporting rely heavily on qualitative arguments.

Proponents have justified export promotion activities using microeconomic and trade policy arguments. For example, ITA's export facilitation and information services have been justified by reference to "market failures," which can occur when certain key conditions in markets are not met. One such market failure can occur if U.S. producers of competitive products do not export because they lack information about foreign markets and lack the economies of scale to justify expenditures for such information. ITA has programs to collect and distribute commercially valuable information on foreign markets that the private sector may not otherwise be able to acquire.

Similarly, proponents also use trade policy arguments to make a case for U.S. government "advocacy" efforts. Advocacy refers to U.S. government representation on behalf of a U.S. firm competing for a potential foreign sale. To the extent that U.S. officials can counter the advocacy of foreign government officials, U.S. firms with competitive products can be made better off by such efforts. TPCC maintains an advocacy center in the Commerce Department to

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[7]See Export Promotion: Rationales for and Against Government Programs and Expenditures (GAO/T-GGD-95-169, May 23, 1995).

identify circumstances when high-level advocacy is appropriate and to initiate such advocacy.

Because Commerce is the lead agency for export promotion, proposals to eliminate the Commerce Department would have a major effect on this function. Thus, were Commerce to be abolished, Congress would need to consider who, if anyone, should chair and provide leadership for TPCC.

Proposals to relocate Commerce's USCS also could have major consequences for export promotion. H.R. 1756 would move the foreign operations of USCS to USTR. Although this might result in better integration of export promotion with trade policy, it would be important to consider whether USTR has the resources to manage USCS. In addition to having fewer than 170 staff, USTR has a minimal administrative support system. Overseas, USCS employs in a hierarchical structure about 800 foreign commercial and foreign national employees in over 130 markets. Managing this network is a complex logistical responsibility, especially considering that the foreign commercial staff tend to relocate every few years. In our 1982 report,[8] we found that the Commerce Department, with considerably greater administrative capability than USTR, experienced great difficulty administering the newly created Foreign Commercial Service.

In addition, by eliminating ITA's industry and country desk staff, as well as the domestic component of USCS, H.R. 1756 would abolish staff who provide much of the tasking for USCS officials stationed overseas. These industry and country experts and domestic office staff help organize and recruit companies for overseas trade missions and trade fairs. USCS officials abroad help support the firms' participation in these events. In addition, these Commerce staff in the United States refer many companies to overseas USCS officials for expert advice and help arrange itineraries for overseas business travel.

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[8]GAO/ID-83-10.

Compared to transferring USCS to USTR, relocating it to the State Department would not present such an obvious management challenge. Furthermore, doing so could infuse a more commercial orientation into State. On the other hand, such a move could cause the export promotion mission to be subordinated to other foreign policy priorities, as was the case before commercial work was transferred from State to Commerce just 15 years ago.

Reorganizing Trade Regulation

Currently, most of Commerce's trade regulation functions are mandated by law. This includes licensing the export of dual use goods and administering countervailing duties, antidumping investigations, and other import programs. Therefore, the government will need to retain the capacity to carry out Commerce's trade regulation activities as long as those laws apply.

The Department of Commerce Dismantling Act would split Commerce's trade regulation activities among several government agencies. Commerce's export-licensing authority would transfer to the State Department, thus consolidating all export-licensing authority in one agency. BXA's enforcement operations would go to the Treasury Department's Customs Service, further centralizing those activities. H.R. 1756 would move Commerce's import administration unit to USTR.

Administering the export licensing of dual use commercial products has always involved a balancing of national security, foreign policy, and commercial interests. Therefore, consideration should be given to whether placing licensing authority for such products in the State Department could alter the necessary balancing of interests. Further, placing the import administration function in USTR could create a considerable administrative burden on USTR and thus could harm the efficiency with which the function would be implemented.

PRINCIPLES FOR REORGANIZING GOVERNMENT

With any government reorganization, difficult decisions have to be made in terms of defining both the appropriate role for government and the right organizational structures for delivering services to the public. In recent testimony, the Comptroller General presented the following five principles that could be used to guide efforts to reorganize the government, based upon GAO's work across the government.[9] These principles are as follows:

1. Reorganization Demands an Integrated Approach

The interconnectedness of government structures and activities cannot be underestimated. Reorganizations that do not consider the broader picture could create new, unintended consequences for the future. For this reason, it is important that Congress and the administration form an effective working relationship on restructuring initiatives and regulatory changes.

2. Reorganization Plans Should Be Designed to Achieve Specific, Identifiable Goals

Reorganization efforts can be better served if specific goals are identified. However, decisionmakers may find it difficult to reach a shared understanding of the goals. Regardless of what the specific objectives are, certain overarching goals should be kept in mind. These would include a government that serves the public efficiently and economically, one that is run in a business-like fashion with full accountability, and one that is flexible enough to respond to change.

3. Once the Goals Are Identified, the Right Vehicle(s) Must Be Chosen for Accomplishing Them

Discussions involving government reorganization often include a debate about the role of the federal government.

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[9]Government Reorganization: Issues and Principles (GAO/T-GGD/AIMD-95-166, May 17, 1995).

Even when decisions are reached that the government should play a role, questions will remain about how that role should be exercised. For example, should the government act directly or through another level of government? If the government is to act directly, should agencies or departments be organized, for example, around national missions or around customers or users of the programs?

4. Implementation Is Critical to the Success of any Reorganization

No matter what decisions are made about how to reorganize the government, fulfilling the promise of any new plan will depend on its implementation. For example, our work over the past decade has shown how many federal agencies have lacked the basic program and financial information needed to gauge progress, improve performance, and establish accountability.[10] Moving to a smaller, more efficient federal government that stresses accountability and managing for results will require better processes and information technology.

5. Oversight Is Needed to Ensure Effective Implementation

The process of reorganizing government should not stop when a plan is adopted. Although agencies will have the primary responsibility for ensuring that their programs are well managed and any changes are having their intended results, it is important that Congress continue to play a significant role in both its legislative and oversight capacities to establish, monitor, and maintain both governmentwide and agency-specific management reforms.

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[10]See GAO High Risk Series (GAO/HR-95-1 through GAO/HR-95-12, Feb. 1995). For examples of work stemming from our management reviews, see U.S. Department of Agriculture: Revitalizing and Streamlining Structure, Systems, and Strategies (GAO/RCED-91-168, Sept. 3, 1991); Tax Administration: Opportunities to Further Improve IRS' Business Review Process (GAO/GGD-92-125, Aug. 12, 1992); and Department of Transportation: Enhancing Policy and Program Effectiveness Through Improved Management (GAO/RCED-87-3 and 87-3S, Apr. 13, 1987).

CONCLUSIONS

Federal trade functions are important government responsibilities. The debate on closing the Commerce Department presents an opportunity to revisit the issue of how best to organize trade responsibilities and programs across the government. The Comptroller General's five principles for reorganizing government can be applied to such an endeavor.

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If you or your staff have any questions concerning this letter, please call me at (202) 512-4812. The information in this letter was developed by John Hutton, Assistant Director; Joseph Natalicchio, Senior Evaluator; and David Genser, Senior Evaluator.

Sincerely yours,

Allan I. Mendelowitz, Managing Director
International Trade, Finance, and Competitiveness

TRADE-RELATED FUNCTIONS OF THE FEDERAL GOVERNMENT

One way to categorize the federal government's international trade-related activities is to divide them into six groups: trade policy, export promotion, trade regulation, trade and investment data collection and analysis, taxation, and other functions.

1. Trade Policy

   Agencies involved include the U.S. Trade Representative; and the Departments of Agriculture, Commerce, State, and Transportation. Activities include:

   A. Working through an interagency process to formulate and coordinate international trade or investment policies; and coordinating those policies with domestic policies, and with U.S. business and consumer interests and state and local governments.

   B. Negotiating international trade or international investment agreements.

   C. Funding and representing U.S. interests in trade-related international organizations.

2. Export Promotion

   Agencies involved include the Departments of Agriculture, Commerce, Energy, and State; the Export-Import Bank of the United States, the Overseas Private Investment Corporation; the Trade and Development Agency; and the Small Business Administration. Activities include:

   A. Formulating and coordinating export promotion policy.

B. Combating foreign export subsidies.

C. Financing and insuring U.S. trade or U.S. investments in other countries, or funding feasibility studies on major infrastructure and development projects.

D. Providing "trade facilitation" services to the public, such as export counseling, foreign market analyses, or trade missions or trade fairs.

E. Providing government-to-government advocacy on behalf of U.S. businesses.

F. Developing foreign markets for U.S. goods and services.

G. Providing tourism promotion services and formulating and coordinating tourism policy.

3. Trade and Investment Regulation

Agencies involved include the Departments of Agriculture, Commerce, Defense, Justice, Labor, State, and the Treasury; and the International Trade Commission. Activities include:

A. Licensing and restricting exports, imports, or foreign investments in the United States for national security, foreign policy, or short supply reasons.

B. Inspecting exports or imports for health, safety, or certain other reasons.

C. Enforcing U.S. laws on illegal drugs, money laundering, counterfeit goods, and other cross-border activities.

D. Enforcing U.S. laws that seek to protect U.S. companies or workers from "unfair" or harmful foreign trade practices, such as antidumping and

countervailing duties laws; and providing financial assistance to offset such harm, such as trade adjustment assistance.

E. Enforcing U.S. rights under trade agreements and responding to certain foreign practices (secs. 301-310 of the Trade Act of 1974, as amended.)

F. Enforcing U.S. antiboycott laws and the Foreign Corrupt Practices Act.

G. Administering foreigners' blocked assets in the United States or adjudicating U.S. citizens' claims against foreigners.

4. Trade and Investment Data Collection and Analysis

Agencies involved include the Departments of Agriculture, Commerce, and the Treasury; and the International Trade Commission. Activities include:

A. Documenting and tracking trade and investment transactions and maintaining U.S. tariff schedules.

B. Analyzing or distributing trade and investment data to government decisionmakers or to the public.

5. Taxation

Agencies involved include the Department of the Treasury. Activities include:

A. Collecting customs duties and fees.

B. Taxing U.S. persons or corporations overseas or foreign persons or corporations that owe U.S. taxes.

6. Other Trade-Related Functions

Agencies involved include the Departments of Commerce, Justice, State, and the Treasury; and the Federal Reserve System. Activities include:

A. Issuing patents and registering trademarks.

B. Developing and maintaining information on U.S. product standards.

C. Regulating the banking activities of subsidiaries of foreign companies in the United States and subsidiaries of U.S. companies located abroad.

D. Enforcing U.S. antitrust laws that affect U.S. companies' ability to trade or invest abroad.

E. Adjudicating disputes over traded goods; e.g., the International Trade Commission's "Section 337" cases).

Sources: Budget of the U.S. Government for Fiscal Year 1996 (Washington, D.C.: U.S. Government Printing Office, 1995); Federal Staff Directory 1993/1 (Mount Vernon, Virginia: Staff Directories, Ltd., 1993); Export Programs: A Business Directory of U.S. Government Services, Trade Promotion Coordinating Committee (Washington, D.C.: U.S. Government Printing Office, 1995); GAO.

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September 11, 1995

The Honorable Toby Roth
Chairman
Subcommittee on International
Economic Policy and Trade
Committee on International Relations
House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

I appreciate your invitation to testify at the subcommittee's September 6 hearing on proposals to dismantle the Department of Commerce and regret that business out of the country precluded me from appearing. However, I am pleased to submit the following comments for the record.

As a former Secretary of Commerce, I have given much thought -- both during my tenure in office and since leaving the post at the end of the Bush Administration -- to ways in which the unwieldy components that comprised the Department of Commerce could be dismantled and/or restructured to be more efficient, productive, and cost-effective. Long ago I concluded that the taxpayers of the United States would be better served if many of the Department's functions were eliminated or regrouped. In particular, I believe that the economy of the United States would benefit greatly from a restructuring of the trade functions now spread across the Commerce Department and several other government agencies.

Specifically, my recommendation is this: The trade functions of the Department of Commerce should be kept together and brought into a 'Super USTR' that could be called the US Trade Office or Administration.

I believe the time has come for our country to have a highly focused and strong international trade presence at the Federal Government level. Current trade policy and activity is diffused with responsibilities spread among 19 different agencies which sometimes have competing agendas. This organizational structure -- or rather lack thereof -- is a holdover from years ago when international trade was not such an important part of the US economy.

Today, the US economy is inextricably and increasingly linked with trade. One out of every five jobs depends on it. We are the world's largest exporter. The US sent about $700 billion in goods and services abroad last year -- about $500 billion in goods and $200 billion in services, comprising about 11 percent of our GDP. In contrast, exports account for a range of 15 to 30 percent of the GDP of our major trading partners. Thus, the US has plenty of room to grow. I am firmly convinced that the only way to keep the US economy -- and that of the world -- expanding is to increase free trade among nations. There is simply no other way to do it, and the US must lead the way.

The Federal Government has a legitimate and necessary role to play here. Certainly, it must do the negotiating with foreign governments to open markets and remove impediments to trade. Businesses cannot do this for themselves. In addition, the Federal Government has a role to play in export promotion -- along with state governments and private sector groups -- as long as other governments around the world are doing the same. Most governments buttress their businesses in export matters far more than we do. So, as we push for less government involvement around the world, the US government needs to keep certain export promotion activity going. It is a way to keep the playing field more level than it would otherwise be.

This is why I believe that it is essential to strengthen US trade policies, strategies and processes by grouping them together. We should start by with the four trade activities currently housed in the International Trade Administration at the Department of Commerce. These agencies are very important to the trade policy negotiating process and to expanding US exports. But their roles are not well understood.

Two of these entities -- International Economic Policy and Trade Development -- provide much of the data and analysis which underpin US negotiating strategy. They also often provide people. For example, during the last year of the NAFTA negotiations, Commerce Department staff members devoted an estimated 50,000 hours to the process. Of the 20 or so NAFTA negotiating teams working at USTR's direction, six were chaired by ITA staff members.

A third agency -- the US and Foreign Commercial Service -- is engaged in export promotion, working mostly out of our embassies around the world and primarily assisting smaller businesses. A fourth -- the Import Administration -- enforces our anti-dumping and countervailing duty statutes.

I would add to this grouping two other agencies now within the Department of Commerce -- the Bureau of Export Administration and the Patent and Trademark Office.

The Export Administration Bureau issues licenses for sensitive technology that is exported. The decision to grant or deny a license results from an interagency decision process that includes the Departments of State and Defense as well as several other departments and agencies. This decision process was a real wrestling match at the height of the Cold War, but considerable progress has been made in recent years in decontrolling many technologies previously regarded as too sensitive for export. This progress could be turned back quickly if Export Administration were sent to the Departments of State or Defense where the paramount concerns are diplomacy and security rather than economic. Jobs and opportunities for US businesses could be lost.

Intellectual property protection has become a critical component of international trade activity and therefore, the Patent and Trademark Office probably has more synergy with trade functions than with any other government activity. Today, PTO is largely privatized and funded mainly from user fees.

Finally, consideration might also be given to grouping with these Commerce Department trade functions the export promotion activities currently housed in other departments and agencies. At least 19 different departments and agencies are engaged in trade promotion.

Pulling all these international trade-related functions together will make them stronger and more efficient.

The Honorable Toby Roth
September 11, 1995
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There is another major concern that must be factored in when weighing the best way to restructure the trade responsibilities of the US government. That is the need to maintain parity in the executive branch decision-making process between diplomatic and security matters and international economic needs. Diplomacy and security, represented by the Departments of State and Defense, have traditionally overwhelmed our economic interests in that process. Many people, myself included, have worked hard over the past 15 to 20 years to redress the imbalance, and in recent years, we have had some real success. It would be most unfortunate if we turned back the clock on this progress. This means that international trade needs a strong Cabinet voice.

Therefore, my recommendation is that the US Trade Representative -- who has Cabinet status -- be joined organizationally with the grouping of other trade functions I have enumerated. Thus, a 'Super USTR'-- or whatever we call it -- leading an enhanced trade function would have an even stronger and more forceful voice in the executive branch process. It would send a clearer message to the rest of our global trading partners as well.

This recommendation assumes that the USTR would move out of the Executive Office of the President. I do not believe that its ability to coordinate and pull together trade interests across government would be substantially hampered by that move.

However, there is one other question to be considered: will 'Super USTR' -- which has both trade negotiating and export promotion within it -- be able to perform the export promotion role well enough? The reason for this concern is that our trade negotiating posture has become so confrontational in recent years that it may be difficult for the Cabinet Officer to be confrontational on the one hand and promote the sale of US goods and services abroad on the other. I think it is possible to do both -- even desirable. That is why I urge our government to review its overly confrontational trade negotiating posture and move toward a consensus-building approach, which is more in keeping with the world situation today. We are now in a world where the US typically has multifaceted relationships with many countries and where there are many other linkages among countries as well. A consensus-building leadership style is likely to gain more for the US than is the style of too many simultaneous unilateral confrontations.

I thank you for the opportunity to share my thoughts and ideas with this esteemed subcommittee. We have a great opportunity before us to introduce new force and vigor into US trade functions. I am confident that the Members of this subcommittee will take every advantage of this chance.

Sincerely,

Barbara

Barbara Hackman Franklin
Former US Secretary of Commerce

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