

# GOVERNMENT **EXECUTIVE**

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## Waging Peace Abroad



**Debt and Disorder Clip America's Wings**

# WAGING PEACE

## Economic Policy

As the Cold War gives way to economic skirmishing, the U.S. government seems poorly organized for the contest. Congressional critics want a major reorganization.

BY HENRY BUTTERFIELD RYAN

**T**he challenge the United States faces now is to wage economic peace abroad as energetically as we prepared to fight the superpower war that never came.

The campaign will be led principally by the private sector, yet leaders of the federal government can hardly step to the sidelines. The policies Washington adopts and negotiates with other nations establish the rules of the contest.

Critics say Washington is woefully ill-prepared for this new era, one that will see economic policy issues attaining prominence heretofore reserved for security and diplomatic considerations. Especially in dealing with trade, the government is deeply disorganized, they complain.

Such leading congressional figures as House Majority Leader Richard A. Gephardt, D-Mo., charge that no fewer than 25 departments and agencies have a piece of the action, and that major players—the Defense, Commerce and Agriculture Departments and the U.S. Trade Representative (USTR)—are often at odds.

The disarray in Washington leaves our domestic industries and their workers vulnerable to the finely tuned trade juggernauts of Japan, Germany and other nations, say Gephardt and other Democrats. As these countries help their industries take advantage of the wide-open, unprotected U.S. market, the American trade deficit continues at sky-high levels, and the United States steadily widens its lead as the world's largest debtor.

What's the solution? Gephardt and his

confederates offer long lists of proposals, including stronger procedures for sanctions against such perceived trade villains as Japan. But at the center of all the proposals is a hearty shakeup of executive branch functions and agencies. Compared to the government trade ministries of other nations, "we seem like a disorganized but affable sandlot team going off to play the San Francisco 49ers," Gephardt says.

There's plenty of room for skepticism about this line of argument. Economists say, for instance, that the trade deficits are attributable to such macroeconomic factors as national savings rates and U.S. budget deficits. And no one could argue that federal reorganization *ipso facto* solves anything: The nation's deep dependence on foreign oil and its poor student achievement scores are hardly testimonials to the effectiveness of the Energy and Education Departments.

Still, the reorganization brigade has remarkable staying power, despite the failure of many trade-related proposals to reshuffle the federal bureaucracies over the past decade. Even now, committees of the Democrat-controlled House led by Gephardt and Speaker Thomas S. Foley, D-Wash., are marking up legislation along these lines. It will expand foreign trade elements of the Commerce Department and establish a new civilian research agency, modeled after the Defense Advanced Research Projects Agency (DARPA) to promote technologies that could keep the nation competitive in world trade.

The Bush Administration has shown little interest in such ideas. But the President talks a good trade game, and has made some moves—such as the hurriedly scheduled meeting in March with Japanese Prime Minister Toshiki Kaifu—to demonstrate his concern with the problem. He also launched the

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Structural Impediments Initiative last year, in which both Japan and the United States pledged to identify and remedy their own barriers to free trade.

Such efforts will almost certainly not satisfy legislators who have long pressed for government action to right the unfavorable U.S. trade balance. In major trade legislation passed in 1988, and in proposals like Gephardt's now on the table, Congress seems to be asserting its power to regulate commerce, at the expense of the executive branch.

**Form and Function**

Preoccupation with the organizational dimension of the U.S. government's approach to trade is an interesting reversal of the ancient architectural homily, "Form follows function."

That dictum, articulated by turn-of-the-century American architect Louis Sullivan, holds that the activities a building will house must dictate its shape. With trade, the opposite theory seems to prevail: If only government can get its bureaucratic form properly aligned, then its function (a more favorable balance of trade) can be achieved. Give us a Department of International Trade and Industry (as President Reagan proposed in 1983), and the trade deficit will fade away.

Such slender reeds of trade policy germinate in the swamp of frustration that Members of Congress and their constituents endure as a result of an unbroken string of trade deficits stretching back to 1975.

Twenty years ago, when the value of U.S. exports evenly matched the value of imports, trade was much less an issue for the government. The value of exports and imports in 1970 totalled \$86 billion, only 8.5 percent of the gross national product.

By 1989, the volume of trade had grown tenfold, to \$857 billion, and exports valued at \$364 billion no longer matched imports that had grown to \$493 billion. The importance of trade to the American economy had almost doubled since 1970, to 16.4 percent of the GNP.

The trend pained import-vulnerable industries, and during the 1980s the government held down imports in order to aid such major employers as the automobile, steel and apparel industries.

Free trade, however, has been a basic tenet of government policy ever since the disastrous Smoot-Hawley tariff legislation of 1930. Many top federal officials recognize that trade can be a powerful force both for improving relations between nations and for spurring economic growth.

For many years, Congress was content to



RICHARD A. BLOOM

**Sen. Richard Gephardt** wants to reshuffle government trade functions. In competition for world markets, he says, we're sending a "sandlot team to play the San Francisco 49ers."

let the President and his agents both set and enforce trade policy. Through seven rounds of negotiations under the 43-year-old General Agreement on Tariffs and Trade (GATT), they have sought to reduce tariffs and other barriers to trade. President Bush considers the latest, so-called Uruguay Round of GATT talks, begun in 1986 and due to conclude in December, "America's number one trade priority," says U.S. Trade Representative Carla A. Hills.

A top-to-bottom search of the priority list

to DARPA.

- Giving the President's science adviser a statutory charter.
- Changing the name of the Commerce Department to the Department of Industry and Technology and focusing its mission on export enhancement and trade promotion.
- Greatly expanding Commerce's Foreign Commercial Service while spinning off the National Oceanic and Atmospheric Administration to the Environmental Protection Agency.

**Trade reorganizers would rename the Commerce Department, create a civilian advanced research agency, and expand the National Security Council.**

would turn up few, if any, of the trade suggestions advanced by Gephardt. Among steps proposed in the Trade and Technology Promotion Act that Gephardt introduced last November:

- Expanding the National Security Council to include the Secretaries of Commerce and Treasury, as well as the USTR.
- Establishing a new presidential Economic Security Advisory Board, analogous to the current Foreign Intelligence Advisory Board.
- Establishing a new Advanced Civilian Technology Agency as a civilian counterpart

Cynics might liken these and other reorganizational steps Gephardt proposes to rearranging the deck chairs on the *Titanic*, but the proposals fall in line with a time-honored congressional tradition: When in doubt (or faced with such unpleasant alternatives as deficit reduction), reorganize.

They're also in line with the inclination of Congress in recent years to reclaim some of the powers to regulate international commerce that it had ceded to the executive branch. This tendency appears most clearly in provisions of the 1988 trade law that seek both to strengthen the hand of USTR in the



RICHARD A. BLOOM

**U.S. Trade Representative Carla Hills** favored dropping Japan from the list of worst trade offenders this spring, while Commerce Secretary Robert Mosbacher took the opposite view. President Bush sided with Hills.

executive branch and to make it more responsive to Congress. The law requires USTR to consult continually with Congress, especially the House Ways and Means and Senate Finance Committees. Furthermore, it specifies that USTR has primary responsibility for developing and implementing trade policy and is the government's chief trade spokesperson and negotiator.

### Tussling for Turf

Massive as the omnibus trade bill of 1988 was, it did not undertake significant executive branch reorganization. Thus it left in place a trade and international economic affairs policy system little changed since the late 1940s. The last significant amendment to the arrangement came 10 years ago, when a reorganization plan promulgated by President Carter gave USTR clear policy leadership, assigning it "international trade policy development, coordination and negotiation functions," while making Commerce "the focus of non-agricultural operational trade responsibilities."

This, of course, did little or nothing to diminish the natural rivalry between USTR and Commerce on trade issues, nor did it establish any new means of harmonizing their views on trade with those of other, often disputatious, agencies such as the Defense and Agriculture departments.

But the Carter plan did recognize an awkward fact of life for the executive branch: Congress insists that USTR take responsibility for trade negotiations and that it therefore be at the center of the White House trade policy-making process.

The Office of the USTR dates back to

1963, when Congress forced it on a reluctant President Kennedy. In 1974, Congress placed the tiny agency in the Executive Office of the President and gave the U.S. Trade Representative Cabinet rank. Five years later it further increased its authority and size and gave it its present name, along with the State Department's responsibility for the GATT.

Congress always has been determined that USTR be an advocate of U.S. business. Consequently, it created an elaborate three-

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### Mosbacher went out on a

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### limb in supporting federal

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### grants for high-tech TV

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### research. The White House

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### sawed it off.

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tiered pyramid of private-sector advisory groups to assist the Representative. USTR must accept the advisory groups' advice or tell Congress why not.

Presidents have never much liked the USTR presence in the White House orbit, and Reagan took action to curtail its influence by in effect decapitating a Trade Policy Committee Congress had created in 1983 within USTR. He moved the work of its top echelon to his new Economic Policy Council.

Congress's frustrations with the trade imbalances are seen not only in the emergence of USTR as a key player, but also in the

creation, in 1980, of an organization within the Commerce Department to increase the department's focus on promotion of foreign trade and investment, especially U.S. exports. This unit, the International Trade Administration, with some 2,200 employees, also uses its regional expertise and research capability to back up the 150-person USTR staff. In 1982, Congress established the U.S. Foreign and Commercial Service within ITA, giving Commerce a worldwide network (124 offices in 64 countries) to promote U.S. exports and report on foreign commercial conditions. This removed at a single stroke a major State Department responsibility, and the move still rankles in Foggy Bottom.

In the last administration, turf fights between Commerce Secretary Malcolm Baldrige and USTR William E. Brock nearly left blood on the floor. Nothing quite like that goes on today, but strains still exist.

Nobody, least of all Hills, was especially pleased when Commerce Secretary Robert A. Mosbacher made a surprise announcement that the United States was considering a free trade agreement with Latin America, starting with Mexico. A USTR aide scornfully dismissed the Latin American idea as "a favorite of politicians" and took pains to downplay talks that have begun with Mexico. He called them "extremely preliminary discussions" undertaken at that country's request.

Mosbacher also found himself too far out on a limb when he publicly advocated active federal support for a domestic high-definition television (HDTV) industry. To Bush Administration conservatives, this smacked of Japanese-style industrial policy—the gov-

ernment supporting an industry for trade-related reasons—and the White House sawed off the limb with Mosbacher on it. Since then, the HDTV cause has been taken up (and then scaled back) by the Pentagon's DARPA.

Commerce has also engaged in bureaucratic struggles over exports of high-tech products, mostly with the Defense Department. Occasionally, the Pentagon favors such exports, as with the FSX fighter plane for Japan, but usually not. Mosbacher, new in office, made a strong impression when he forced the government, over Pentagon objections, to rework an agreement with Japan to co-produce the FSX. Mosbacher said the deal as originally drafted would benefit the Japanese aviation industry unduly to the detriment of our own. His efforts led to an important change, going beyond the FSX, as the Commerce Department gained entry to all government deliberations on technology transfer issues.

The department recently used this authority to ease national security restrictions on sales of mainframe computers to the Soviet Union and Eastern Europe. In talks with the Pentagon, Commerce officials for months had argued for the change, citing improvements in political relations and pointing out that Western European nations already sell similar items to the East. Gradually, the Defense Department has given way.

But USTR has ceded no turf. It has squelched notions that Commerce or anyone else should handle trade negotiations with the USSR and has maintained its control over the Uruguay Round GATT talks.

The Uruguay Round marks the first time service industries have figured in multilateral trade talks, and this has caused friction between Treasury and USTR. Treasury has pushed to gain control over negotiations on financial services—as was the case during talks leading to the 1987 free trade agreement with Canada. But so far Hills has refused Treasury's request.

Elsewhere in the trade melange, the State Department still has important influence, though its wings were clipped when it lost the Foreign Commercial Service.

Finally, the Agriculture Department plays a major part. Its international role includes operation of the Foreign Agricultural Service, a worldwide network dedicated to facilitating the sale of U.S. farm products. Suggestions for moving the service out of the department meet resistance from departmental leaders and agriculture lobbyists.

#### White House Councils

These proud and turf-conscious bureaucracies ultimately report, of course, to the White House, where major policy calls are made by the President. A recent high-profile

example was President Bush's decision not to cite Japan for unfair trade practices under the onerous "Super 301" provisions of the 1988 trade bill.

White House policy-making machinery, formed soon after World War II and little amended since then, does not seem particularly well-equipped for the foreign economic policy task.

The senior foreign affairs coordinating mechanism is the National Security Council, with a secretariat headed, as often in the past, by a military man, Brent Scowcroft.

Neither the Secretary of the Treasury nor any other official with exclusive economic duties is a member, and the NSC staff of 170 employees is notably short on economic specialists.

One must climb down three rungs on the staff ladder to find someone whose sole responsibility is economics. That officer is Timothy Deal, a foreign service officer who has had important economic assignments and is now on loan to the secretariat from the State Department. His staff, the economic focal point of the NSC, consists of only

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**Secretary of State James Baker**, left, and Treasury Secretary Nicholas Brady are heavyweights in trade policy deliberations. But two dozen other agencies have a stake in international economic issues.

three other professionals. They coordinate the work of several interagency committees, dealing usually with issues having clear security implications—for example, technological exports or trade with the Soviet Union. With the demise of the Cold War, this small staff may even shrink.

The NSC, in fact, very rarely focuses on economic issues, excepting when they impinge on the security and diplomatic questions that are its principal focus. Nowadays, says one high official, NSC leaders are pressuring agencies to provide trade rewards to nations that help in U.S. efforts to stem narcotics trafficking.

To the extent that presidential arbitration is needed, trade issues tend to flow to the Economic Policy Council, a group chaired *pro tem* by the Treasury Secretary and consisting of domestic Cabinet members plus the Secretary of State and top White House staff. The EPC was begun by Reagan in 1985; unlike the NSC, it has no statutory charter. The council has only three staff members and one of them, Stephen P. Farrar, who handles international economic issues, spends half of his time working for the domestically oriented White House Office of Policy Development. In charge is Washington lawyer Olin Wethington.

Despite its modest international capabilities, the EPC has had an important role in the volatile U.S.-Japanese relationship this year. Its staff coordinated arrangements for the Bush-Kaifu meeting, and council members debated the controversial decision about whether to cite Japan under the Super 301 unfair trade law. That debate reportedly pitted Mosbacher and Labor Secretary Eliz-

abeth Dole, who favored citing Japan, against Hills, Secretary of State James A. Baker III, Treasury Secretary Nicholas F. Brady, OMB director Richard G. Darman and chairman of the Council of Economic Advisers Michael J. Boskin.

The Administration's decision was made three days before the May 1 deadline, when Bush sided with Hills's faction.

### Pressure for Change

When Hills, at the end of April, informed the Senate Finance Committee of her opposition to citing Japan under the Super 301 process, committee members protested that only constant pressure has yielded trade concessions. Finance chairman Lloyd Bentsen, D-Texas, said the American constitutional form of government "cannot work if the Administration refuses to implement laws."

Such pressure from Congress for a tough stance on trade remains strong. Indeed, the strict deadlines for trade actions imposed in the 1988 law have "institutionalized executive branch activism" on the matter, says University of Maryland professor I. M. Destler, author of several books on U.S. international economic policy.

Congressional sentiment for reorganizing or otherwise strengthening the executive branch on trade matters will continue so long as trade deficits remain high. Concern intensifies when such experts as Glen S. Fukushima, until recently a deputy USTR for Japan and China, complain about the government's current shortcomings. Not long ago, Fukushima told a Johns Hopkins University audience that U.S. teams negotiating with Japan change too often, rarely include

fluent Japanese-speakers, and lack the painstaking preparation of their Japanese counterparts.

Fukushima doubts that any reorganization could create an agency able to conduct U.S. trade affairs adequately given present personnel and resources. Destler, who has studied the issue closely for more than a decade, advocates a reorganization that would abolish the Commerce Department, create a non-Cabinet trade agency incorporating Commerce's ITA and the operational side of USTR, and leave a small trade policy group in the President's Executive Office. Appointing an economic deputy at the NSC, and a full-time international deputy at the EPC, would also help, he says.

But Destler also cautions that such steps would "not balance our trade accounts, nor eliminate differing perspectives in the government." Trade-related disputes between agencies representing agriculture, business, labor, national security and diplomatic interests would continue to flourish in this country, as in fact they do in Japan and other nations with established trade ministries.

That point was made as well by OMB executive associate director Frank Hodsoll during a February talk to the Council on Excellence in Government. Hodsoll said he doesn't expect any international economic policy reorganization, adding that even if one were undertaken, "I'm not sure it would make a difference." With regard to the organization, or lack of it, in policy making on these matters, he asserted that "this administration is no different than others. Where it's at the edge of the boxes, it's catch-as-catch-can, and I don't see that changing." □