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4 Import Protection for U.S. Textiles and Apparel: Viewed from the Domestic Perspective

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In the post–World War II era, the U.S. textile and apparel industries achieved a degree of protection that was unparalleled in the rest of the manufacturing sector. Although textiles and apparel together employ less than 2 percent of the total labor force, they account for over 80 percent of the net cost of all import restrictions in the United States (Hufbauer and Elliott 1994). This industry's unusual success in attaining import protection is also evident from the fact that it was the only manufacturing sector to win a multilateral quota arrangement sanctioned by the General Agreement on Tariffs and Trade (GATT).[1]

Our focus in this paper is on the mechanics of domestic protection: on the laws that gave the executive branch the authority to restrict textile imports and on the executive branch's implementation of that authority. We emphasize these dimensions for two reasons: (1) the more visible conflicts between nations over the international agreements to restrict textile and apparel trade have been extensively and skillfully studied, and (2) overlooking the mechanics of how protection was put in place leads one to overlook one of the most powerful actors in the story—the state itself. In determining the scope and magnitude of protection to U.S. textile and garment interests, the U.S. government was more than a neutral intermediary. It was one of the most influential players in the game.

4.1 Winning Protection: The Early Years

During the 1950s, imports of cotton textiles increased rapidly, and by the end of the decade imports accounted for over one-third of the U.S. market in

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1. In 1955, the U.S. government negotiated a GATT waiver for U.S. agricultural protection.

several important product categories. These import surges prompted inflammatory statements against Japanese exports and an occasional congressional bill to impose quotas or other limits.

There was little chance that such bills would gain approval. The lessons of the Smoot-Hawley tariff were fresh in mind, and Congress was reluctant to take direct action to limit imports. There was even less chance that a protectionist bill could avoid a presidential veto. While Congress perceived trade policy as a means of helping local industry, the executive branch of the U.S. government saw trade policy as an important instrument of foreign policy.

Influenced by Wilsonian ideals of the international rule of law and the populist idea that trading made good neighbors, the executive's approach to trade policy was conditioned by two decades of progress. The executive branch had been in an almost continuous negotiation with its trading partners over trade restrictions. Not just principle but conditioned reflex pushed the executive away from unilateral action on trade restrictions.

Although such direct routes to more protection appeared to be unrealistic in the post–World War II climate, Congress had also created several "administrative" routes to protection. These more indirect avenues for protection gave the president authority to restrict imports under specific circumstances, but left him with the discretionary authority not to do so.[2] These more indirect avenues allowed congressional representatives who faced demands for import protection to direct constituents to the appropriate administrative mechanism.[3]

4.1.1 The Textile Industry's Strategy

The effort to gain protection was led by textile interests, who were more affected by import competition than the apparel industry. Manufacturers of cotton textiles, who were most affected by imports, played a particularly important role. The industry's strategy was the obvious one: to maintain pressure on all political fronts for direct protective measures and at the same time to use all available administrative remedies. On the political front, the industry was active at public hearings concerning the U.S. government's intentions to negotiate tariff reductions under the Reciprocal Trade Agreements Act.

The industry quickly learned that the executive was reluctant to limit imports. In 1955, 1959, and again in 1961, the American Textile Manufacturers

2. Even the Smoot-Hawley tariff provided for such administrative adjustment of tariffs. In a "Section 336" (of the Smoot-Hawley Act) the U.S. Tariff Commission would conduct an investigation to determine the cost of producing a product in the United States and in exporting countries. Based on that information, the Tariff Commission would then recommend to the president the rate change that would "equalize competition," i.e., a tariff rate that would make the foreign cost plus the tariff equal to the domestic cost. Section 336 allowed for tariff reductions as well as for increases. Over the twelve-year life of the section (1930–1941) most petitions for investigations were rejected (256 of 357). In almost half of the times the commission conducted an investigation, it recommended no change of the tariff. Of 101 investigations, 29 led to tariff increases, 25 to reductions.

3. All eighty-one requests by Congress for a Section 336 investigation were honored by the Tariff Commission.

Institute (ATMI) petitioned the secretary of agriculture for broader import quotas under Section 22 of the Agricultural Adjustment Act.[4] The Eisenhower administration exploited the fact that there were no deadlines for a Section 22 investigation and left the 1955 petition tied up in the secretary of agriculture's preliminary investigation. The 1959 and 1961 petitions were thwarted in a different way: the executive (the Eisenhower administration in 1959, the Kennedy administration in 1961) exploited its authority to draft the terms of reference for a Section 22 investigation, and focused the investigations on the impact of imports on the U.S. government's agricultural *export* programs rather than on its domestic price or income support programs. Likewise, when the American Textile Manufacturers Institute asked for quotas on imports of cotton, synthetic fiber, silk, and wool products under the national security provisions of the Trade Agreements Act, the executive took advantage of the absence of a time limit on such investigations and never announced a decision. A 1956 petition for "escape clause" relief came to a similar end, and it became evident that the executive would take advantage of whatever loopholes were available to prevent the trade remedy mechanisms from interfering with a U.S. foreign policy that scorned restrictions on imports.

4.1.2 The Opportunity That Paid Off

By the fall of 1961, the Trade Expansion Act (TEA) had become an important part of President John F. Kennedy's agenda. To President Kennedy and his allies in the government, commercial diplomacy was first of all a tool of foreign policy. Through a new round of GATT negotiations the president could build a relationship with the increasingly successful European Common Market, and thereby renew the strategic alliance between the United States and Western Europe. Though the economics of the argument remained vague, the TEA also became the president's response to pressures for action on the continuing U.S. trade deficit and the gold drain. In addition, the Kennedy administration argued that the act would stimulate the domestic economy: it became something of a panacea for present problems and future circumstances, foreign and domestic.

Yet Kennedy needed support from a powerful southern delegation in Congress to pass the TEA. Textile protection was an issue on which the southern delegation was unified. The textile and apparel industries were by far the largest providers of manufacturing jobs in the South, accounting for over half of total manufacturing employment in several states. During his 1960 campaign, Kennedy pledged to make the cotton textile import problem a top prior-

4. Section 22, added to the Agricultural Adjustment Act on August 24, 1935, authorized the president to impose import fees or quotas to restrict imports of agricultural commodities *or the products thereof* if those imports render or tend to render ineffective or materially interfere with U.S. agricultural programs. The section, by design, was similar in scope and purpose to Section 3(e) of the National Industrial Recovery Act (NIRA), which authorized the president to limit imports that interfered with an approved NIRA industry recovery program.

ity of his administration. Based on this pledge, the southern delegation bartered their support for the TEA against protection for the textile and apparel industry. To win their support for the bill, President Kennedy offered a seven-point program for textile and apparel protection. As a key element of this program, the State Department was directed to convene a conference of textile importing and exporting countries to develop an international agreement governing textile trade.

U.S. participation in such negotiations would proceed under the authority granted to the president under Section 204 of the Agriculture Act of 1956. Section 204 authorized the president to negotiate with foreign governments to limit the export to the United States of agricultural *or textile* products, and to carry out such an agreement by limiting the entry of such products into the United States. Before the TEA came to a vote, the southern congressional delegation had pushed through an amendment to Section 204 that would give the president power, once agreement with some countries was in place, to restrict imports from countries *not party* to the agreement.

By March 1962, Kennedy had implemented or made commitments that would soon implement all seven points of his proposed program to help the industry. The Long Term Arrangement on Cotton Textiles, which provided for protection from imports that caused or threatened market disruption, was signed in February 1962. In April 1962, acting under Section 204 authority, Kennedy embargoed eight categories of cotton textile imports from Japan.[5] When the TEA came up for a vote in June 1962, an overwhelming majority of southerners in both the House and the Senate voted for the bill.

4.2 The Origins and Implementation of the Multi-Fibre Arrangement (MFA)

Richard Nixon, running for the presidency in 1968, had learned from Kennedy's experience about the power of the textile industry. He pledged in his campaign to negotiate an international agreement that would include wool and man-made fiber products. After the elections, the Nixon administration used Section 204 to expand the Long Term Arrangement. Section 204, as amended in 1962, provided a powerful weapon to force foreign countries to negotiate limits on their exports to the United States. It put the U.S. government in a position, once agreement had been reached with some countries, to threaten unilateral action against any country reluctant to come to terms. Section 204 also made it difficult for exporting countries to unify to strengthen their negotiating position. After concluding agreements with Hong Kong, South Korea,

5. The industry in turn kept its part of the bargain. With these restrictions in place, the National Cotton Council and the American Textile Manufacturers Institute supported the TEA. Two-thirds of Congressman Carl Vinson's Textiles Conference Group voted for the bill and against critical amendments restricting the president's negotiating authority. Eighty-two of 105 House southern Democrats voted for the TEA; in the Senate, 19 of 20 southerners.

and Taiwan, the Nixon administration was in a position to take unilateral action against other exporters, and exporting-country opposition was chipped away.[6] The new agreement, known as the Multi-Fibre Arrangement (MFA), replaced the Long Term Arrangement and extended protection to include both wool and synthetics.[7]

The main operative provision of the Multi-Fibre Arrangement, carried over from the Long Term Arrangement, was Article 3. Article 3 provided that whenever imports of a particular product caused or threatened market disruption, the importing country could request the exporting country to restrict its exports. While the Arrangement specified that the request for restraint be accompanied by a "detailed factual statement of the reasons for the request," it implicitly left to the importing country the authority to determine when "disruption" was present or threatened. Other provisions identified the kinds of restrictions sanctioned under GATT, such as restrictions on products, growth in quotas, and other details.

4.2.1 How Protection Is Administered

Under the MFA, U.S. textile import restraints are administered by the Committee for Implementation of the Textile Agreements (CITA). When the textile industry believes that market disruption is occurring in a particular product category, the industry (usually through its association, the American Textile Manufacturers Institute makes the facts known to CITA. CITA usually meets at the level of deputy assistant secretary (senior civil service), with the Commerce Department representative chairing. CITA then develops its own "disruption statement," on which the industry often comments. Those comments often include the provision of more up-to-date data on the state of the domestic industry, such as data on output, prices, or employment.

If CITA concludes that market disruption is occurring, it issues a "call," a notification to the exporting country that its exports of a particular product are causing market disruption. Following the notification, a preliminary quota is imposed. Under MFA guidelines, the U.S. government then enters into negotiations with the exporting country to agree on a final quota level.

In the end, industry officials insist, there is a loose relation between the disruption statement and the quota level that is set. While the Commerce Department administrators are usually sympathetic to the industry's position, quota levels must win the approval of CITA, which includes two "general interest" departments, State and Treasury. Industry officials insist that even the initial quota is often larger than the limit actually needed to stop market disruption, and that the final level is often more than twice the level of the initial quota. During the first ten months of 1984, when imports surged as the dollar

6. Brandis (1982, 43).

7. Richard Nixon, running for the presidency in 1968 against Hubert Humphrey, had learned from the 1960 lesson of the power of the textile industry. He thus pledged in his campaign to negotiate an international agreement that would include wool and man-made fiber products.

appreciated, the ATMI testified that only one-third of the imports of uncontrolled products that were causing market disruption and were eligible for a call under the MFA had in fact been called.

Evidence from the 1980s confirms that the protection received by the industry is porous. Despite the fact that coverage of the MFA expanded significantly during this period, quota utilization rates were, on average, considerably below 100 percent. Quota allocations, which grew at slightly below 6 percent annually in real terms, grew at an even faster pace for some of the major exporters, such as China.

Econometric analysis of the pattern of quota allocation in the United States during the 1980s also shows that market disruption was only one of several factors which affected quota determination. Empirical proxies for market disruption (e.g., import penetration, loss of employment) were significant determinants of which products were under quota, but other factors were important as well. In particular, the faster-growing and richer, industrializing countries were more likely to have quota restraints imposed on their exports, while important markets for U.S. exports were less likely to face quota protection.

4.2.2 Impact of Protection

The degree of protection won by the textile and apparel industries was substantial. Although textiles and apparel account for less than 2 percent of total employment in the U.S. economy, protecting them against import competition accounts for 83 percent of the net cost to the U.S. economy of all import restrictions. Cline (1990) estimates that quotas as of 1986 provided the equivalent of a 28 percent tariff on textiles and a 53 percent tariff on apparel. Even so, imports have continued to capture an increasing share of the U.S. market. When the first international textile arrangement was concluded in the early 1960s, imports accounted for only 5 percent of the U.S. market for textiles, and an even smaller percentage of the U.S. market for apparel. By 1992, textile imports had risen to 20 percent of the U.S. market, while apparel imports accounted for 35 percent.

4.3 Why Protection, Why VERs? Bad Economics

The U.S. textile and apparel industry's case for protection emphasized the loss of jobs and output by U.S. workers and businesses. Resistance to this pressure came from the executive branch of the U.S. government. Although the executive could count on support from U.S. heavy industry and large U.S. banks when it sought authority to negotiate GATT for lower protection, U.S. business provided no direct opposition to textile industry petitions for protection. The auto industry, for example, would support President Kennedy's Trade Expansion Act, but it would not testify at an escape-clause or Section 22 investigation that restrictions on textile exports would increase its costs and thereby endanger jobs in the auto industry.

The political power of southern textile interests, combined with a lack of opposition from other industries, meant that the executive branch was forced to make important concessions to the textile and apparel industries. These concessions were made in spite of the fact that the executive felt that foreign policy interests were best served by a policy of free trade. By the 1990s, however, the balance of power had shifted away from the textile and apparel interests.

In 1994, the U.S. government signed the Uruguay Round Agreement, which provides that all textile and apparel quotas will be eliminated within ten years. Yet this loss by the industry does not reflect any realization by the U.S. voting public or even the U.S. government that protecting textile and apparel products came at a significant cost to U.S. consumers. Rather, it reflects two unrelated factors. First, changes in congressional rules and southern voting patterns diminished the southern delegation's influence. Second, from a mercantilist perspective, support turned against U.S. textile and apparel producers. Textile exporting countries are now valued as markets for services and technology-based products, hence the textile and apparel industry's mercantilist interests were traded for those of other U.S. producers.

Why were voluntary export restraints (VERs) used instead of tariffs? Although a VER is a higher-cost form of protection than a tariff, it was an instrument that accommodated the various influences that came together to shape protection. Pressure for protection from the textile industry was, of course, one of these influences, but there were counterpressures as well. In the 1930s, after the Smoot-Hawley tariff was enacted and other countries had retaliated, governments were wary of triggering further retaliation. Negotiation with the exporting country was the usual response to domestic pressure for increased protection. The success of the Reciprocal Trade Agreements program and the creation under U.S. leadership of GATT intensified the U.S. executive's focus on negotiation as the way of establishing trade policy. Along with these changes came an increased reluctance to limit U.S. imports, even through negotiations. Under pressure, however, the executive would turn to the VER. A negotiated VER minimized the "costs" of protection—it minimized harm to the foreign policy "relationship" that existed between the United States and the exporting country.

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