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By KBH, NARA, Date 12/9/92

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April 7, 1976

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Your Decision on the Shoe Escape Clause Case

Your decision on this escape clause case, affecting \$1.1 billion of shoe imports, is a critically important one, in which many factors must be weighed.

After thorough reflection, our firm conclusion is that the soundest decision would be to provide a comprehensive, specially organized program of adjustment assistance relief for this industry.

This course of action has advantages, and costs. Its central advantages are that it will provide for the industry the kind of assistance that its apparently ailing segment can use in order to become economically viable. In domestic economic terms, this decision is the least costly for the economy, for the free enterprise system and for the American consumer. In international economic terms it will strengthen our ability to prevent mutually destructive protectionism in the spirit of your commitments at Rambouillet.

There are a range of other advantages:

- there will be no disruption in our relationships with our foreign suppliers. (For several of them, notably Spain and Italy, our decision to damage their important shoe exports could be politically destabilizing. For developing countries like Brazil, new restrictions would undermine our efforts to build up an atmosphere of confidence and cooperation.)
- healthy, competitive American firms and workers, particularly agriculture, would not be forced to bear foreign retaliation.
- our country would continue to demonstrate critically necessary leadership away from protectionism toward open markets, through multilateral trade negotiations.

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- we would be honoring the OECD Trade Pledge in which all member OECD governments pledged to avoid trade restrictions.
- our consumers should not be asked to shoulder the added inflationary burdens of protection; shoes account for 1.5 percent of the consumer price index. The cost of a tariff rate quota to American consumers could be as high as \$750 million.

There are three main disadvantages or costs involved in such a position. First, the domestic manufacturers believe that they have been injured, even though important indicators of the industry's economic health fail to demonstrate current import injury. Second, all six of the International Trade Commissioners found injury, and only one of them recommended adjustment assistance as the appropriate remedy. Third, the industry believes it has a prior commitment, made during consideration of the Trade Bill. They demand that that commitment be honored by providing import relief, even though we do not consider the letters a binding commitment as to the nature of relief, and the domestic and international economic situation has changed significantly.

These disadvantages cannot be ignored, but we believe that they are outweighed by the advantages of the adjustment assistance option, which is a valid form of relief to this industry. Even though the Congress does not have the ability to override your decision in this case, a forceful, candid explanation of the need for choosing this option in light of the present changed economic circumstances would prevent adverse industry and Congressional reaction.

The Economic Condition of the Industry

Our conviction that additional import barriers are the wrong medicine for this industry results from a review of its economic prospects.

Shoe industry production has risen rapidly from the trough caused by the recession. Indicators of profit and employment are up. An informal Treasury survey of a random sample of firms, large and small, in all parts of the country, did not discover even one whose business is down.

This is a two-tier industry. Twenty-one firms,

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representing 50 percent of production, are doing well. The most recent quarterly reports of the eight largest firms in the industry show that all of them had increases in earnings per share, some of them very large increases.

There is another tier of the industry, consisting of roughly 175 establishments, that is vulnerable to imports. This is the sector that may benefit from adjustment assistance programs.

Our three main conclusions about the economic condition of the industry are as follows:

- it is showing signs of recovery.
- it has virtually been holding its own against imports in the last few years.
- a segment of the industry has been in long-term decline, but another segment, accounting for 50 percent of production, has done well.

The factors supporting these conclusions are capsuled in Attachment 1.

Nature of the Adjustment Assistance Option

We would like to explain briefly the nature of this adjustment assistance option, because it has been termed a "do nothing" option. Even though adjustment assistance programs are already available, we propose that these programs and resources, now spread out among at least three Departments, be mobilized under a single official whom you designate solely responsible for coordinating, and applying these various forms of support.

The nature of the programs that could be mobilized in this effort is explained in Attachment 2, titled "An Adjustment Assistance Program for the Shoe Industry". Adjustment assistance along these lines would make economic sense for the following reasons:

1. It would help those who are in bad financial straits. These are the smaller producers in the industry whose profits averaged 2.6% of sales in 1970-74.

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2. It would not provide -- as would a tariff rate quota -- for windfall profits to the more competitive large firms, whose profits averaged over 7% of sales in 1970-74.
3. For those firms which it would help, it does not simply provide for additional profits as would import relief. Rather, it would directly provide investment capital, technical and managerial consultative services. For shoe workers it would provide not only compensation but retraining and relocation for a labor force which is paid well below the national average.
4. It recognizes that the long-term comparative advantage of the U.S. is not in shoes. The U.S. should import those shoes which can be made more cheaply abroad. Import relief simply delays an ultimate reallocation of capital and labor to more profitable sectors.

Conclusion:

Your decision in this case will inevitably be seen in the light of the specialty steel decision.

A decision to provide tariff rate quota protection to shoes will be portrayed as a major step by our country toward a protectionist trade policy.

On the other hand, a decision to provide a special program of adjustment assistance relief to help this industry adapt to competition will be seen as an affirmation of our fundamental freer trade policies. Such a decision would be the best counter-argument to vocal critics of the steel decision.

There will always be an element in our economy that will seek protection from competition through "stable" markets and "orderly" growth of trade. These are thin disguises for old-fashioned protectionism, coupled with a penchant for cartelization. If government will let them, these elements will always attempt to reduce the risks inherent in a competitive system.

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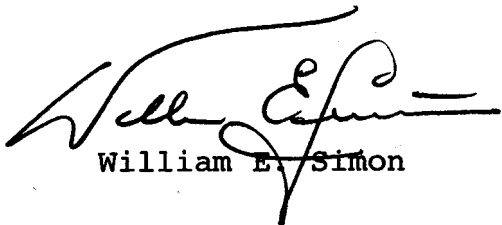
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The world economy has come through a period of severe recession. During this period we entreated other countries to join us in a "Trade Pledge" against crippling mutual protectionism, and we succeeded. We have now emerged from that period of recession into one of solid economic recovery and growth. To impose trade barriers now for hardship suffered during the recession makes no economic sense.

Recommendation:

It is our recommendation that the weight of the arguments falls on the side of a special program of domestic adjustment assistance measures for that segment of the industry that may now be experiencing import injury. This is the sound course, that avoids shifting the burden of a domestic adjustment problem onto a fragile international economy. We believe that the Congress, the public at large, and the industry will respond if you explain your decision candidly and forcefully in terms of the national interest.



William E. Simon



Henry A. Kissinger

Attachments

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