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## **MANAGED TRADE: MAKING AMERICA LESS COMPETITIVE**

### **INTRODUCTION**

**M**anaged trade is a term that has been appearing with increasing frequency in discussions of international economic policy. While its meaning is imprecise, it connotes a government's practice of setting target levels of imports and exports, and actively regulating trade and international investments in an effort to achieve those targets.

The cluster of policies used to manage trade include: quotas and other limits on imports; demands for guaranteed shares of sales in another country's market; demands that other countries institute economic policies that favor imports; government subsidies for selected industries or government-business "partnership"; exports subsidies; and some form of national industrial and trade planning.

At first blush, this may appear to make some sense. Yet managed trade will damage the American economy severely because it will result in reduced international competition for American businesses, therefore making them less competitive by increasing their reliance on government handouts.

Recent examples of efforts at managed trade include:

◆ ◆ Congressional limitations on importing products like textiles, automobiles, steel, and sugar, among others; export promotion policies which use the U.S. foreign aid program to boost U.S. exports; and the use of direct government subsidies to the private sector in areas like agriculture, semiconductors, and other high-tech industries.

◆ ◆ Executive Branch actions, including the recent U.S.-Japanese negotiations that seek to reduce the trade deficit with Japan by pressuring Tokyo to increase government spending in its domestic economy, and U.S.

government support for federal funding of emerging high-tech industries like high definition television and supercomputers.

These policies seek to increase the government's control over the level of imports and exports by managing U.S. trade. Further, the concern that Japan is eclipsing America economically motivates many Americans to advocate these managed trade policies. They maintain that Japanese success in such industries as automobiles and electronics in large part is because of a Japanese policy of manipulating trade and granting government favors to key exporting industries. The U.S. government, they argue, should adopt a similar strategy.

**Faulty Assumptions.** Advocates of managed trade policies proceed from a number of assumptions regarding the economic consequences of trade and investment patterns. First, they assume that a trade balance, or better still a surplus, is always desirable and that government must act to ensure a surplus. Second, they assume that trade policy must be "results oriented"; this means that instead of merely opening markets overseas to American goods and services, American firms must have guaranteed market shares in other countries. Third, they assume that government grants to specific industries will improve the national economy. And fourth, they believe that trade policy must serve some conception of "national interest" even if it sacrifices the prosperity and free choice of American consumers.

Managed trade champions marshal scant evidence to support these assumptions. They fail to show, for instance, why a trade balance or a surplus is necessarily and always good, especially when government actions to achieve a balance lower American living standards. They also ignore the lessons of history, which show that governments have a dismal record of picking "winners" and "losers" in the economy and of managing trade in the interests of the country. They neglect the fact that political, rather than economic, considerations usually determine such policies. And advocates of managed trade ignore that trade retaliation almost always fails to open foreign markets.

If policy makers wish to improve American competitiveness while raising the living standards of Americans, they should introduce broad policy changes at home, not try to manipulate international trade. In particular, they should:

- ◆ Reform tax provisions that penalize productive business activities;
- ◆ Remove restrictions on the American banking sector;
- ◆ Revise antitrust laws to allow American firms to respond jointly to international competition;
- ◆ Negotiate Free Trade Areas to encourage other countries to open their markets to American goods;
- ◆ Avoid placing costly new regulations on American businesses.

Managed trade policies that increase government regulations and restrict international trade and competition simply will result in less productive American industries and lower living standards for Americans. The correct macroeconomic policies create an environment and incentives for greater productivity and economic efficiency. Low taxes, open markets, minimal government regulation, and competition in the domestic market, for example, will give American industries the best opportunity to become more internationally competitive.

## WHAT IS MANAGED TRADE?

Though lacking a clear definition, a set of assumptions and policies are strongly implied by the concept of managed trade.

1) "Balanced trade" is a more important goal than free trade. Balanced trade means achieving equilibrium between import and export levels. The assumption is that trade deficits are harmful to the American economy and must be eliminated by government action.

2) The managed trade philosophy assumes that trade policy should be "results oriented." This may mean demanding that a foreign country guarantee a certain share of its market for American-made products, or that it reduce its trade deficit with the United States by a specified annual amount. It could even include demands by one government that another government change its fiscal and monetary policy to attract imports or discourage exports.

3) Managed trade advocates believe that the government actively must promote certain enterprises, particularly exporting firms, at the expense of others, to improve the trade balance.

4) Advocates seem to believe that the American consumer by herself or himself is not capable of making choices in her or his own interest. Example: the Economic Strategy Institute, a Washington-based group founded by labor and business leaders supporting managed trade, in a June publication rejects as outmoded the concept that "increased consumption, without regard for production, is the main object of economic policy."<sup>1</sup> The same publication claims that Americans "overconsume" (whatever "overconsume" means) by \$300 million per day.<sup>2</sup>

Advocates of managed trade usually maintain that this "overconsumption" sucks in imports, and that government must regulate and restrict consumption, even if it lowers the standards of living of individuals, in the name of some higher "national good."

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<sup>1</sup> Economic Strategy Institute, "Looking to the Twenty-first Century" (Washington, D.C.: June 1990) p. 7.

<sup>2</sup> *Ibid.* p. 8.

## STUMBLING TOWARD MANAGED TRADE

The idea of managed trade has formed the foundation of several important government initiatives during the past decade. Examples:

- ◆ In the 1980s, the U.S. government placed quota restrictions on such imports as automobiles, steel, and sugar in an effort to “correct” trade imbalances or to offset allegedly unfair trade practices by Brazil, Japan, and other countries.
- ◆ In the early 1980s, some members of Congress suggested that a national industrial policy be developed by a federal central planning board with members of government, big business, and organized labor, to decide which industries would receive special favors. Others suggested that the U.S. Department of Commerce be turned into the Department of Industry and Technology, modeled after Japan’s Ministry of International Trade and Industry (MITI).
- ◆ In 1986 the U.S. negotiated a tightening of the Multi-Fiber Arrangement, an international agreement that allows countries to restrict imports of textile and apparel products. Senator Ernest Hollings, the South Carolina Democrat, this year introduced a bill (S. 2411) to restrict such imports even further.
- ◆ Tokyo agreed in 1987 to a demand from Washington to guarantee a certain share of the Japanese market for American-made semiconductor chips, to restrict sales of chips produced by Japanese firms to third countries such as Taiwan, and, if necessary, to limit the production of Japanese chips to keep the world price high for these products.
- ◆ Last year several American electronics firms and members of Congress sought over \$1 billion in federal subsidies for U.S. manufacturers of high definition television. Then the Director of the White House Office of Science and Technology Policy, Alan Bromley, suggested that \$1.9 billion of U.S. taxpayers’ funds be spent to produce a futuristic supercomputer network. And in its report “Making Things Better,” released this March, the Office of Technology Assessment (OTA), an office of the U.S. Congress, calls for a larger U.S. government role in identifying and funding new technologies.<sup>3</sup> The report suggests that the economic success of Japan and other Asian countries results from their managed trade policies. The report recommends the establishment of a Civilian Technology Agency, to be funded by the federal government and made up of private business leaders and other private interests, to identify industries deemed to need subsidies.

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3 U.S. Congress, Office of Technology Assessment “Making Things Better: Competing in Manufacturing,” OTA-ITE-443 (Washington D.C.: U.S. Government Printing Office, February 1990)

- ◆ Congressman Tom Campbell, the California Republican, has introduced a bill (H.R. 3699) that would require the U.S. Trade Representative to impose restrictions on any country that limits American imports.
- ◆ The Bush Administration has asked the U.S. Import-Export Bank and the U.S. Agency for International Development to spend \$500 million to promote U.S. exports. Democratic Senators Lloyd Bentsen of Texas, David Boren of Oklahoma, and Robert Byrd of West Virginia, have introduced the "Aid for Trade Act of 1990" (S. 2703) in support of this plan.
- ◆ U.S. negotiators this June persuaded the Japanese government to promise to spend \$2.8 trillion over the next decade on public works projects. Washington hopes that American contractors will be given part of this business. In return, the U.S. promised to make federal budget deficit reduction its top priority, even if higher taxes are required to achieve this goal. The promise to hike taxes came several weeks after Bush agreed that raising tax revenues must be a part of any budget "summit" agreement with Congress.

These actions reveal a drift toward a U.S. policy of managed trade, by which the federal government restricts imports and actively assists American exporters with subsidies or through other non-market means.

## **WHY MANAGED TRADE WOULD DAMAGE THE U.S. ECONOMY**

Some policy makers suggest that managed trade policies should be used in a coordinated manner to help eliminate the U.S. trade deficit and make American industry stronger. Yet the assumptions of managed trade policies are based on myths.

**MYTH #1: The American national interest requires restrictions on economic choices by individual Americans.**

Advocates of managed trade generally acknowledge that their policies would lower the living standards for at least some Americans by reducing "overconsumption." But they claim that restricting the economic choices of individuals is in the "national" interest.

This notion of national economic interest is inconsistent with the very idea of individual liberty and free markets which forms the heart of American society. Moreover, by restricting the freedom of individuals to choose in the market, governments remove the incentive for businesses to remain competitive. Consumers determine which businesses survive and which fail. Businesses thus have the strongest incentive to seek new and better ways to produce goods and services at the best possible price.

The democracy of the market, not the dictates of central planners and bureaucrats, will best ensure an economically strong America.

**MYTH #2: A trade balance is good, a surplus even better.**

The managed trade doctrine assumes both that a trade deficit is necessarily harmful, and that government action often is needed to assure a balanced trade. Yet a trade surplus or deficit is neither good nor bad. A deficit simply means that in any given year, Americans hold more goods while foreigners hold more U.S. dollars — which, ultimately, can only be used to buy U.S. goods or to invest in U.S. firms.

The levels of exports and imports are established by individual consumers in the various countries that engage in trade, not by government planners. Trade takes place between two individuals because each gains in value from the trade. When the government steps in and attempts to “manage” trade by controlling import and export levels, many individuals are prevented from making such beneficial exchanges, or do so on unfavorable terms.

A bilateral trade balance is, in a real sense, meaningless. Each consumer does not worry about running a “trade deficit” with the local supermarket, even though the store never purchases anything directly from the customer. The same phenomenon occurs in international terms. For example, Nigeria, over the past decade and probably in the foreseeable future, will run a surplus with the U.S. because it sells the U.S. high-valued oil. Such “imbalances” should not worry policy makers because trade adjustments occur automatically. The foreign customer with dollars in his pocket after trading with the U.S. can do three things with these dollars: he can use them to invest in America, which offsets the deficit; he can exchange the dollars with another foreigner, who will use them to invest in America or buy U.S. goods — again reducing the deficit; or he can sell them to Americans who want his currency to buy imports. This causes the dollar to lose some of its value while foreign currencies rise in value relative to the U.S. dollar. That makes U.S. products more attractive to foreign buyers — again reducing the trade deficit.

The U.S. trade deficit has, in fact, been shrinking without government action. As the U.S. dollar lost some of its value in the late 1980s, the U.S. trade deficit shrank from a high of around \$160 billion in 1987 to around \$100 billion in 1990. The U.S. trade deficit with Japan shrank from a high of \$56 billion in 1987 to \$49 billion in 1989. More relevant is the size of the U.S. trade deficit as a share of total U.S. trade; it fell from 25 percent in 1987 to 13 percent last year.

**MYTH #3: Japan prospers because of a managed trade policy.**

U.S. policy makers often use Japan as an example of how a country can be run by successful “managers” of trade and industry. Yet a closer look shows that these policies have had very mixed results and that Japan has prospered despite these policies, not because of them. If the standard of living of the people in a country is the criterion of success, Japan has not fared well compared with the U.S. In terms of real purchasing power, the Japanese consumer is 40 percent poorer than his American counterpart. A 1989 joint study by Japan’s Ministry of International Trade and Industry (MITI) and the

U.S. Department of Commerce, for example, finds that prices in Tokyo on selected products were as much as 68 percent more expensive than prices on those same articles in New York City<sup>4</sup> (See table ). If the economic welfare of the citizens is the measure of economic success, the managed trade policies of Japan can hardly be called successful.

Japan's general success is the result of its sound macroeconomic policies. Low, stable tax rates, no capital gains tax, low or no taxes on savings, a competitive banking industry, and limited government regulations on business activities have created an environment conducive to efficient business activities. Where Japan has strayed from this general course,

U.S.- JAPAN PRICE DIFFERENCE (in U.S. Dollars)		
Category	Price in Tokyo	Price in New York
Laser Printer	2,172.34	1,550.00
Golf Clubs	754.23	320.00
Shaver	90.14	44.95
Bed Linen	63.38	20.00
Tire	61.34	47.81
Blue Jeans	55.63	32.00
Pen	35.21	15.18
Movie Ticket	11.27	6.50
Spark Plug	7.60	1.69

Source: U.S. Department of Commerce

particular industries, such as agriculture and petrochemicals, have been uncompetitive and the Japanese consumer has suffered.

Various industries in Japan and other Asian countries indeed have been successful in the world market. The question is how much success has been due to managed trade policies and direct government support industries and how much success has been due to pro-growth fiscal and monetary policies.

Writes Robert Gilpin, professor of International Affairs at Princeton:

....the success of 'Japan Incorporated' has spurred one country after another to adopt industrial policies to improve its own economic and trading position, even though the Japanese themselves are abandoning many aspects of their industrial policy

<sup>4</sup> Department of Commerce/MITI price survey data, "U.S.-Japan Price Survey: Sample Observations," January 1989.

and are moving toward greater liberalization of their economy.<sup>5</sup>

... It is doubtful...that the stunning success of Japan in one product area after another can be attributed primarily to the perspicacity of MITI and Japan's economic managers.<sup>6</sup>

There are several instances where the Japan's MITI failed or had no effect. Examples:

**High-Technology.** Computer products are cited by advocates of managed trade as having "the most extensive government involvement."<sup>7</sup> Yet the Japanese government in fact gave very little capital assistance to the machine and information industry, which includes computers, over the key development years of 1961 to 1965. The government funding for this period was a mere 2.5 percent of the total investment for that industry and from 1976 to 1979 the figure dropped to 0.8 percent. In addition, Sony Corporation was advised by MITI in the 1950s not to purchase U.S. transistor technology. Sony ignored the advice and went on to economic success.

**Automobiles.** In the 1950s, MITI instructed Mitsubishi Heavy Industries, Ltd., and Honda Motor Co. Ltd., which at the time made only motorcycles and other products, not to enter the automobile market. In the early 1960s, MITI advised Japanese auto companies to cut back on its variety of models and concentrate on a few basic vehicles. These auto companies ignored MITI's advice and became even more successful. Today automobile competition in Japan is fierce.

**Agriculture.** This sector of the Japanese economy has received government price supports and constant protection from imports since World War II; yet agriculture, by far, remains one of Japan's most inefficient industries.

It would be very difficult to maintain that Japanese economic success has been due to managed trade policies, given the extremely uneven impact of past policies.

**MYTH #4: Government is able to pick and nurture "leading edge" industries.**

Advocates of managed trade argue that federal loans and loan guarantees, trade protection, export credits, and similar policies will help key industries become more competitive. Managed trade advocates usually favor combining

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<sup>5</sup> Robert Gilpin, *The Political Economy of International Relations* (Princeton: Princeton University Press, 1987), p. 211.

<sup>6</sup> *Op. cit.* p. 213.

<sup>7</sup> Hugh Patrick and Henry Rosovsky, eds., *Asia's New Giant* (Washington, D.C.: The Brookings Institution, 1976), p. 571.



such policies into some form of national industrial planning to help such industries.

But the prospects for government successfully picking the future industrial “winners” are extremely poor. Private investors, with their own money on the line, are more likely to choose correctly than are government officials allocating taxpayers’ money. For example, in the late 1970s the federal government invested huge sums of money to develop synthetic fuels, solar power, and other new energy sources, believing such industries to be the wave of the future in an energy-starved world. Most of these industries have been uneconomical, consuming more resources than they produce.

Given the nature of the political system, moreover, most favors to businesses likely would depend more on political influence than sound economics. The export subsidies passed out by the U.S. Export-Import Bank, for instance, have tended to go to large, powerful businesses that would be successful exporters even without handouts.

**MYTH #5: Managed trade policies create U.S. jobs.**

The history of managed trade policies in the U.S. shows that even when one industry may benefit temporarily from government help, the cost to other industries, or to the U.S. consumers, outweighs these benefits. Years of import restrictions on textile and apparel products, for example, have destroyed far more jobs in the retail sector than they have “created” or “saved” in textile manufacturing. Advocates of protection of the American steel industry claim that since 1984 import restrictions have saved 17,000 jobs. Yet a report by the St. Louis-based Center for the Study of American Business at Washington University finds that the industries that use steel, like producers of farm and construction equipment, have lost 54,200 jobs because, in part, of the higher cost of steel. The result: a net loss to the economy of 37,200 jobs.<sup>8</sup>

Another example of the damaging side effects of managed trade is the cartel in computer chips created by the U.S. and Japan in 1986. Among other things, this limited exports of Japanese-products to the U.S. with the aim of building up the U.S. computer chip industry. But the result of the agreement has been shortages of chips for American manufacturers of computers. This in turn made it more difficult for American computer manufacturers to obtain chips, which increased the cost of production for computers.

**MYTH #6: Retaliation is the most effective means to force countries to remove trade barriers.**

While some advocates of managed trade might concede that retaliatory trade policies would harm the U.S. in the short term, they claim that these

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<sup>8</sup> Arthur T. Denzau, “How Import Restraints Reduce Employment,” Center for the Study of American Business, June 1987, p. 5.

policies will open foreign markets to U.S. goods — with long-term benefits both to the U.S. industry and to foreign consumers. To be sure, the U.S. government should seek to open foreign markets to American exports.

While the argument for trade retaliation may sound plausible, the evidence suggests that in practice retaliation rarely works. The U.S. Trade Representative and the U.S. President have the authority under Section 301 of the 1974 Trade Act to seek retaliation against foreign unfair trade practices. Yet, only thirteen of the 78 cases pursued by the U.S. under Section 301 since 1974 have opened markets. Even in these instances, the impact has been very small. Some cases took several decades to achieve more open markets.<sup>9</sup> Example: Washington worked for fourteen years to persuade Tokyo to abolish import restrictions on U.S. cigarettes. In the meantime, the U.S. consumer paid increased prices for retaliatory restrictions on Japanese goods.

Recent negotiations with Japan have taken a managed trade overtone. Held under the threat of U.S. retaliation, these policy changes being sought often are likely to be damaging to both countries. For instance, the U.S. received from the Japanese government last month a pledge to spend \$2.8 trillion over ten years on public works projects. In addition, the U.S. agreed to make elimination of the federal budget deficit its top economic priority, even if this means raising taxes.

These policies could bring recessions to both countries. Japan runs a huge budget deficit, so raising taxes or increasing borrowing to finance new spending could slow its own economy. This would mean that the Japanese would be less able to purchase American imports. Similarly, higher taxes in America will take money out of the hands of U.S. investors and consumers and could result in a recession.

## **THE ALTERNATIVE TO MANAGED TRADE**

Managed trade and national economic planning will not make America more competitive. This does not mean, of course, that there is no federal government role in enabling American enterprises to compete more effectively in the world market. Rather than trying to manipulate trade, protect fashionable industries, or penalize the consumer, free market, macroeconomic policies would create an environment more conducive to entrepreneurship. Among these policy reforms:

- 1) Eliminate taxes on capital gains and provide incentives to increase private savings by reducing overall tax rates and eliminating double and triple taxation of dividends and other forms of income from savings.**

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<sup>9</sup> Phillip Mink and Nancy Oliver, "Tough Trade Policy: Shooting Ourselves In The Foot," Citizens for a Sound Economy, Washington, D.C., April 25, 1990.

Productivity and competitiveness depend in part on capital investment. Yet U.S. tax policy discourages savings and raises the cost of investment capital. Currently, the cost of capital in the U.S. is far higher than any of its major competitors. A 1989 study by the Federal Reserve Bank of New York finds that the cost of capital for equipment and machinery with a life of twenty years was higher in the U.S. than in West Germany, Japan, or the United Kingdom.<sup>10</sup>

Industry in the U.S. must pay between 55 percent to 90 percent more for investment capital than in either Japan or West Germany. This gives these, and other foreign competitors, an important advantage. While overall American productivity is still high compared with most countries, it would be far higher if capital costs were reduced.

**Capital Gains.** One reason for the relatively high cost of capital in the U.S. is the heavy taxes on profits from investments. The top U.S. capital gains tax rate is 33 percent. By contrast, Belgium, Italy, Japan, the Netherlands, Hong Kong, Malaysia, Singapore, South Korea, and the Republic of China on Taiwan do not tax capital gains at all, while West Germany taxes capital gains only on investment securities held less than six months.

The U.S. should reduce the costs of investments by eliminating the capital gains tax. Further, the U.S. should provide a taxation environment in which U.S. businesses can plan long-term investments. The current tax environment in the U.S. changes rapidly. With calls by Congress, and recently by the Bush Administration, to raise taxes, American businesses are forced to think short term.

**Savings.** Currently there is a bias in the U.S. tax code against Americans saving and in favor of Americans borrowing. Increasing the savings rate in the U.S., however, would reduce the costs of capital. Savings could be encouraged by eliminating taxes on interest that is earned from savings accounts, which is a double taxation that penalizes people who save. This double taxation occurs because taxes are paid on the investment returns on savings that have already been taxed as salary income.

## **2) Reform U.S. financial and banking laws.**

Since banks provide much of the borrowed funds used for industrial expansion, finance many stock transactions, and act as the intermediaries of international trade, efficient banking services are necessary for sustained economic growth and innovation. However, U.S. law impedes competition and efficiency. Example: The McFadden Act of 1927 and the Bank Holding Company Act of 1956 restrict interstate banking, forcing many U.S. banks to remain small and uncompetitive. This denies banks economies of scale and reduces the efficiency of the entire system, making it less productive. As

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<sup>10</sup>Robert N. McCauley and Steven A. Zimmer, "Explaining International Differences in the Cost of Capital," Federal Reserve Bank of New York, *Quarterly Review*, Summer 1989.

America's competitors in the European Community proceed to integrate their markets in 1992, permitting European-wide banking, Sir Leon Brittan, Vice President of the European Commission, asked U.S. bankers and policy makers this March: "Can anyone seriously justify the continuation of [laws] restricting interstate branching by banks on grounds of efficiency or prudential stability?"<sup>11</sup>

The Glass-Steagall Act of 1933, meanwhile, artificially separates commercial banking from investment banking. Banks that cannot provide both commercial and investment services are not as competitive as foreign banks that can.

### **3) Revise the antiquated antitrust laws.**

U.S. antitrust laws introduced in 1890 and 1914 originally were to help maintain competition between domestic businesses and to prevent alleged price fixing and unfair competition. In today's global economy, however, most U.S. firms are subject to intense foreign competition. Thus antitrust laws, which fail to take adequate account of foreign competition or which define business concentration as bad in itself, serve only to prevent U.S. firms from cooperating to finance research programs or to develop and market new products to compete on the world market. Japan, West Germany, and other countries impose fewer restrictions on business cooperation and allow businesses to cooperate on research and development projects. America's antitrust laws should be revised to make joint ventures when there is strong international competition.

Recently, the Bush Administration has supported policies, like antitrust reform, that make it easier for businesses to enter joint production ventures. Any new policy, however, should focus on making it easier for businesses to reduce the cost of raising capital for investment.

### **4) Negotiate Free Trade Areas with any country wishing true, bilateral open markets.**

The U.S. currently is phasing in Free Trade Areas (FTAs) with Israel and Canada and soon will open negotiations with Mexico and Chile. The Bush Administration recently offered to negotiate such arrangements with any country in the Western hemisphere desiring completely open markets. The U.S. should extend this offer to all countries. FTAs create incentives for other countries to seek similar arrangements and result in the reduction of trade restrictions. FTAs reward open markets and punish closed markets.

### **5) Avoid imposing new, costly regulations on businesses.**

Congress currently is considering legislation that would penalize productive enterprises. The proposed Clean Air Act, for instance, would

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<sup>11</sup>Speech given at the American Enterprise Institute on March 23, 1990, reported in the *Washington Times*, March 26, 1990. p. B5.

impose costly regulations on businesses in order to achieve very small reductions in pollution. Worse still, the measure ignores cheaper and more effective methods of reducing pollution. The Americans With Disabilities Act would force businesses to install specific and expensive equipment to accommodate handicapped workers, even if less expensive means were available to accommodate disabled employees. Similarly, a proposed Civil Rights bill would impose racial quotas on U.S. firms and trigger a flood of expensive lawsuits against businesses that in fact were not engaging in discrimination.<sup>12</sup>

## CONCLUSION

The economic integration of the European Community, the remarkable developments in Eastern Europe, the emergence of strong free market economies in Asia, and expansion of trade and transnational investment create greater momentum for an integrated global economy. America's reaction to these changes ultimately will determine America's long-run prosperity. If American policy makers try to manage international trade in this rapidly changing world, American firms and American consumers will suffer. The doctrine of central economic planning is collapsing in country after country. The U.S. is hardly likely to be successful if it tries to conduct such policies on the international scale. The world economy simply is too complex to manage — even if it made sense to try.

Congress and the Bush Administration instead should seek to make America more competitive by making America more attractive for risk-taking and innovation. That means removing outmoded regulations and other policies that inhibit efficiency. And it means shunning the spurious doctrine of managed trade.

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<sup>12</sup>See, William Laffer, "Why Kennedy-Hawkins Will Mean Quotas," *Heritage Foundation Issue Bulletin* No.159, July 2, 1990.