OUTLINE OF REMARKS

VOLUME FOOTWEAR RETAILERS

March 19, 1983--7:30 p.m.--Boca Raton Beach Club

I. The President and the New Congress

A. In his State of the Union message, President Reagan made clear that he and the 98th Congress must work together to deal with an active agenda. That means action on the deficit, on unemployment, on social security, and attention to the shifting patterns of industry and job creation in our economy. At the same time we have to realize there will be major areas where we will not agree. No one is going to compromise away the gains won towards restraining the growth of spending, controlling the tax burden, and beating back inflation. The American people still overwhelmingly support those goals.

B. The President, the House leadership, and the Senate leadership will have to work together to forge a consensus on major decisions if we are to get the job done. On some issues we simply cannot afford to have a legislative stalemate: social security is one of these, and the President and the Speaker have shown a statesmanlike regard for the public interest in supporting the bipartisan social security package, and in agreeing on the basic of a $4 billion-plus jobs package.

C. The President still sets the agenda. On taxes, spending, deficits, employment, and trade the President proposes, and Congress must dispose. Those of us who have ideas of our own will work with the White House to get things done--but leadership still must come from the President. That is why we are unlikely to see any major departure from the principles of government Ronald Reagan has espoused in his first two years in office.

D. There is no coherent alternative to Republican leadership. The people still recognize that our economic problems were a long time in the making, and that the cure will take time too. According to CBS/New York Times voter exit polls in the last election, voters by a 5 to 4 margin blamed our economic problems on past Democratic policies rather than on President Reagan.

II. The Economy

A. Prognosis. We have to realistically assess the state of the economy and the prospects for the next few years. The fact is that the groundwork has been laid for a stable and lasting recovery, without renewed inflation. It is absolutely crucial that we proceed with care at this point, and not throw away the gains already made.

No one should doubt that we are making progress. In January the index of leading economic indicators jumped 3.6 percent--the biggest one-month rise since 1950, and the ninth increase in the last 10 months. In addition, the "concurrent indicators" of current economic performance rose .6 percent in January, showing we are in recovery.

1. Inflation was cut to 3.9 percent in 1982, from 12.4 percent in 1980. This is the lowest inflation rate since 1972.

2. Interest rates are down and still falling. The prime rate is down to 10 1/2 percent, way down from the 21 percent that prevailed when President Reagan took office. Home mortgage rates are down 3 points since last year. Long-term rates for business loans are off 3 to 4 points from a year ago.

3. Government spending growth rate is down to 11.2 percent this year from 17.4 percent in 1980. The 1983 budget resolution projects the growth rate of government to fall to 7.5 percent by 1985.

4. Lower taxes with major improvements in tax equity will help buoy the recovery, both on the consumer side and on the investment side. The combined effect of the 1981 and 1982 tax bills has been to lower individual taxes over 3 years by $344 billion, as well as improve compliance and tax fairness. Lower individual rates boost personal income and restore incentive, while favorable capital cost recovery rules should spur investment.

5. In January, industrial production was up 0.9 percent; housing starts were up 36 percent; the stock market is up 300+ points over last August. These are tangible evidence of recovery.

B. Unemployment. The January drop in unemployment to 10.4 percent is major good news, and the decline should continue even if there are a few "blips" upward. Unemployment, of course, remains the major negative in the economic picture. High unemployment has to come down and stay down without inflationary stimulus--that is what we have failed to do in the past.

o Clearly there is a bipartisan consensus for more jobs. But resuming the inflationary policies of the past will not create lasting jobs, just an illusion of prosperity that leaves us worse off the next time we try to get "off the wagon."

o That means the most important thing we must do is judge carefully the degree of stimulus the economy can and should take, consistent with a firm anti-inflation policy. The Federal Reserve will play a key role, and has already shown a willingness to adjust its short-term goals based on an assessment of the weakness of the economy. We will not allow the recession to continue, but we will not reinflate the economy, either.

o While the main emphasis must remain on the long-term goals of growth with low inflation, there are steps we can take in the short term to deal with the plight of the unemployed. Many things have already been done:

- A new Federal supplemental unemployment compensation program was passed with the 1982 tax bill, providing additional unemployment benefits to about 2 million workers in 38 States. The President has agreed to extend this through December 31, and proposes a tax credit voucher for employers who hire the long-term unemployed

- The President signed into law the new Job Training Partnership Act, which emphasizes training for permanent employment rather than make-work jobs. New initiatives outlined by the President focus on the long-term unemployed, youth, and on training or relocating displaced workers who lost jobs due to plant closures or force reductions

- The targeted jobs tax credit, which was extended for 2 years by the 1982 tax bill, gives employers a real incentive to hire the disadvantaged--about 600,000 workers are certified under the program

- The administration's enterprise zone legislation, reported last fall by the Finance Committee, can provide us with an experiment in private-sector job creation in depressed areas, through a combination of Federal tax incentives and State and local efforts to target an area for development with regulatory and tax relief, neighborhood participation, and capital and other improvements

- The 5¢ per gallon gax tax increase can create over 300,000 jobs by funding much needed repairs and construction of the Federal highway system.

C. <u>The Deficit and Interest Rates</u>.

1. All our economic difficulties are, of course, related--high interest rates and slow growth boost the deficit, and higher deficits create greater uncertainty in the business community as to our future course; will there be more inflation, or less credit available for business expansion?

2. Because of this, it makes sense first of all to chart a path that is most likely to bring stable growth without inflation. Higher growth boosts revenues and cuts unemployment costs, thereby reducing the deficit as well: already, upward

revisions of growth estimates are being made in light of the economic indicators.

3. In the short term, as the President urges, it makes sense to continue to review every part of the Federal budget in an effort to bring the deficit down. This means both defense and entitlements must be under scrutiny to maximize the efficiency of every dollar spent. A balanced deficit reduction program is still our goal: the Budget Committee will produce a budget resolution in the next few weeks.

4. Continued efforts to restrain the deficit by controlling Federal spending will give the Federal Reserve a bit more room to accommodate the potential for real growth that exists in the economy without inflationary pump-priming. But restraint in both fiscal and monetary policy is crucial if we want to maintain long-term confidence in the economic program. That means long-range goals must be carefully reconciled with efforts to respond to particular weaknesses in the economy. Radical attempts to reverse course would be self-defeating and must be resisted.

III. Taxes and the Budget

A. If we need additional revenues in the out-years, it has to be done consistent with the goal of reducing the deficits as recovery proceeds: a goal that everyone agrees is essential.

B. There are lots of ways to raise revenue, but our job is to choose ways that are fair and consistent with good tax policy. We should resist the temptation to undo the progress that has been made in providing greater incentives for savings, work, and investment: those incentives will become more important as recovery proceeds. There are many base-broadening measures still to be considered that would improve the equity and efficiency of the tax code.

C. Indexing. There seems to be a growing clamor for repeal of the tax indexing provision of the 1981 tax act, which takes effect in 1985. We all know that we have to compromise to get things done, but this is one area that we ought to leave alone if we are interested in sound tax policy and honesty in government. We can raise revenues--but why resort once again to back-door revenue increases generated by inflation? Tampering with indexing further risks sending a signal that we are prepared to reinflate the economy and generate revenues through bracket creep to deal with the deficit. That would mean undoing all the progress we have made over the past two years, and it would be a tremendous mistake.

D. Outyear tax increases. The President's budget recommends a contingency tax to raise $46 billion in FY 1986, consisting of a 5% surcharge and an oil tax, to be triggered if the deficit remains too high despite adoption of major spending cuts. It is not clear why we would need to use a "trigger" device to raise taxes based on deficit levels: if we estimate that the revenues will be needed, we can agree that any tax increase we provide for will be temporary, whether it be a surtax or a package of miscellaneous changes. It seems unlikely that a "trigger" mechanism would create the kind of reassurance on the deficit that the country is looking for.

If growth and revenues turn out better than now projected, we can always reduce taxes to the extent that becomes fiscally desirable. One possibility is to enact some additional base-broadening measures--improvements in equity and eliminating tax provisions that are economically inefficient--then provide for further rate reductions if the deficit is brought under control more rapidly than is now expected. This would maintain the momentum for a lower-rate, broader-based tax system that has been built over the last two years. It is also consistent with the administration's consideration of a streamlined and simplified tax structure with lower rates.

E. Tax Issues of Continuing Concern

A number of issues that have been around for some time ought to receive attention from the 98th Congress.

1. 6-month holding period. Efforts to reduce the capital gains holding period to 6 months will continue. There is very strong support for this change, because it can give a boost to capital markets at a time when greater savings and investment is vitally important to sustained economic recovery. This change was approved by the House in 1981 and by the Senate on three separate occasions in 1982, so it is time to get it enacted into law.

2. Education Savings Account. An idea that has been around for several years and may receive attention in the new Congress is to use an IRA-type arrangement to encourage savings for college education or advanced vocational training. Contributions to an account set up for this purpose would be tax-free subject to limits on the use of the funds for the stated purpose. In the area of education of one's children, in particular, the President has proposed a version of this initiative in his FY 1984 budget. It could provide support for education with a free-market approach, which has a lot of appeal.

3. Fringe Benefits. The moratorium on IRS fringe benefit regulations expires on December 31, 1983, having been extended to that date by ERTA. This issue has been with us since 1978, when the moratorium was first imposed, and it may be time to deal with it. The Congressional Budget Office estimates that

about $500 million could be generated by taxing so-called "nonstatutory" fringe benefits provided to employees--e.g., free airline travel, recreational facilities, etc. While theoretically taxable, these benefits raise difficult issues of valuation and allocation to individual employees. Still, fringe benefits are "compensation" and, to prevent erosion of the revenue base, something may have to be done.

4. Life Insurance Taxation. The temporary life insurance company taxation provisions of TEFRA expire at the end of 1983. The Finance Committee and Joint Committee staffs, as well as GAO, are looking at permanent changes in the taxation of the life insurance and casualty insurance industries. If the temporary rules were simply extended, a substantial revenue loss would result, probably in excess of $1 billion per year.

5. Withholding on Interest and Dividends. The withholding repeal campaign has to be resisted, and the President has indicated he will resist it. Withholding is an equitable compliance measure, not a new tax--without the $4 billion per year from withholding, we will have to raise someone else's taxes. On a $1,000 account, withholding would mean only a 50-cent loss each year on compounding--and banks can help people avoid that by opting for annual withholding.

G. Possible Administration Tax Initiatives

A number of initiatives were not acted on in the 97th Congress, and the administration's 1984 budget proposes action in these areas in the 98th Congress.

1. Tuition Tax Credits. Although the Finance Committee fashioned a compromise tuition tax credit proposal last year after extensive consideration, the bill received no further action last year. But the Committee's efforts could form the basis for legislation in the 98th Congress. Legislation, S. 528, was introduced February 17.

2. Caribbean Basin Initiative. The administration's proposal to provide trade and certain tax incentives for economic development in the Caribbean Basin made substantial progress in the 97th Congress, but still awaits final action. This is likely to be a priority item for the administration; The Finance Committee will hold hearings on April 13.

3. Enterprise Zones. The Finance Committee reported out a modified version of the administration's enterprise zone proposal last September, but no further action was taken. New legislation has been sent up by the President, and the proposal is likely to come up again in connection with discussion of job-creation and economic development proposals, and possibly could be acted on with further refinements. A major question is

whether the House will take an interest in the idea, which they did not in the 97th Congress.

4. DISC. While no specific DISC proposal was made in the 97th Congress, the issue was extensively discussed--particularly the question of legality under the GATT. The search is clearly on for an alternative way to encourage exports, and the administration is likely to be active.

IV. Social Security

A. Bipartisan cooperation continues to be the key to resolving the social security financing crisis. The National Commission developed a bipartisan package that deserves support. It is not perfect, and everyone had to swallow hard on some items: that is the cost of reaching agreement.

B. The work of the Commission made clear that it *is* a crisis in social security that we are confronting. The Commission agreed that $150-$200 billion is needed between 1983 and 1989 to ensure the solvency of the system through 1990. This means providing about a 15 percent reserve ratio by 1990 under the pessimistic--some would say realistic--assumptions. This is still a reserve level lower than at any point in history, and does not take into account the medicare program, which will have serious reserve problems by 1990 if nothing is done.

C. The real job is, and always has been, up to Congress. The bipartisan package, including a 6-month delay in cost-of-living adjustments, partial acceleration of scheduled payroll tax increases, coverage of new Federal workers and non-profit organizations, and partial taxation of benefits for higher-income beneficiaries, is now before Congress. The House approved the basic package last week, and the Senate is now considering the Finance Committee version.

D. Long-term changes are also needed, of course, and the work of the commission has helped give us valuable guidance. We cannot forget that the payroll tax burden is already heavy and scheduled to increase, and the confidence of young people is critically low. The long-term deficit *can* be reduced considerably by very gradually slowing the growth of benefits as people come on to the rolls in the future. The House and Finance Committee bills both involve raising the retirement age, again very gradually, for people retiring some 20 or 30 years from now. Ample time is available for people to adjust their savings and retirement decisions. The Finance Committee bill has the additional virtue of phasing out the retirement earnings test beginning in 1990. This will eliminate the penalty against older Americans who choose to remain in the work force.

E. Major Features of the Package

1. COLA Delay

Even with the 6-month delay of the cost-of-living increase, benefits for 1984 for the average retired couple will be about $330 higher than their benefits for 1983, assuming an inflation rate of 4 percent.

2. Taxation of Benefits Above Threshhold

Many low and moderate income retired taxpayers are already taxed on their pensions, dividends, interest, and other income. Basic fairness requires that individuals with substantial amounts of other income should at least treat some of their social security benefits as income subject to income tax. One-half is an appropriate amount and should not cause undue hardship.

Taxation of benefits above the threshhold should only affect about 7 percent of all social security beneficiaries, so the great majority of social security recipients will not be affected by this change.

3. Payroll Tax Acceleration

The acceleration of the payroll tax increase will only increase payroll tax revenues by $9 billion between now and 1988. Half of this amount--the employee portion--will be offset by a tax credit. The other half--the employer portion--will be deductible on the employer's income tax return. The net effect will only be to take about $3 billion out of the economy--an insignificant factor in a 3 trillion dollar economy.

By removing the enormous amount of misinformation and uncertainty which has scared the elderly people of the country, the bill will improve confidence, both among the elderly and in the financial markets. These should have significant positive economic effects.

F. Benefits vs. taxes

- Of the $169 billion National Commission financing package, one can view the largest component as being on the benefit side through slowing the rate of future benefit growth and partial taxation of benefits for the highest-income beneficiaries.

  - Benefit slowdown and recapture — $70 billion - 41%

    COLA adjustments — ($40 billion)

Recapture of benefits through tax systems	($30 billion)
o <u>Expansion of coverage and repayment of military service obligation</u>	$41 billion - 24%
Coverage of Federal and nonprofit employees	($23 billion)
Military service debt	($18 billion)
o <u>Tax speedup and restructuring of self-employment tax</u>	$58 billion - 34%
Tax speed up	($40 billion)
Self-employment restructuring	<u>($18 billion)</u>
	$169 total

o Even though one-third ($58 billion) of the package is comprised of payroll tax changes, the real impact on the economy will be less because of the tax credit to employees, the deductibility of employer payroll taxes and the tax deduction provided for the self-employed will reduce the total tax burden by about $18.5 billion. Thus the real additional payroll tax burden will be slightly below $40 billion over the period 1983-1990.

V. <u>Trade</u>

A. <u>Trade deficit is too large</u>. The size of our trade deficit (which is now projected at $75 billion in merchandise trade and $30 billion in current account) alone means Congress will continue to look hard for ways to reform our trade policy. The system of multilateral arrangements has been called into serious question as many believe it fails to meet our needs. Many voters and members of Congress will want to see us approach more of our trade problems on a bilateral basis. The average American simply does not understand why Japanese cars and TV's sell well here but American cigarettes, beef, baseball bats, and cosmetics cannot be sold in Japan. Remedies for this type of situation are certain to be a major focus of attention in the new Congress.

B. <u>Export issues</u>. Unfortunately, the GATT ministerial failed to make progress on the question of foreign subsidies for agricultural exports. This will continue if pressure from Congress to resolve this situation through negotiation or for other export promotion actions like the recent wheat flour sale to Egypt. I will be introducing legislation which will facilitate such activities in the future. This does not mean trade war, but does mean seeking to expand East-West trade, developing a viable substitute for DISC, utilizing Ex-Im Bank resources more adeptly, and moving the trade reciprocity bill that the Finance Committee approved in 1982. Fair access to markets must be a two-way street, and Congress will be under considerable pressure to see that that is so.

C. Import issues. As you know, the House passed "local content" legislation at the end of the last Congress. That is a drastic proposal and likely to be counterproductive in the long run if our goal is to increase access to markets and to gain maximum benefit from the mutual advantages of international trade. There may be other areas, however, where we might make adjustments: in considering extension of the Generalized System of Preferences, there may be an interest on the part of some members of the Finance Committee to restrict the program, particularly in light of the failure of the GATT ministers to agree on a new round of negotiations between developed and developing countries concerning tariffs. Similarly, there may be some objection to the trade provisions of the CBI proposal, and it may be difficult to extend the President's authority to negotiate tariff reductions on a limited basis. It is a good sign that the Japanese have agreed to continue to voluntarily restrain their automobile imports to this market for a third year until the domestic industry has had an adequate time to get back on its feet.

D. Clearly the heat is on when it comes to seeing that American producers get fair treatment under our system of international trade. If we choose our battles carefully to secure an appropriate response from our trading partners, we have an opportunity to making trade freer and fairer, to the advantage of everyone. But we must avoid the two extremes of allowing the world to think only the U.S. will play by the rules of free trade, regardless of disadvantage to our citizens; or, on the other hand, taking extreme unilateral actions that may look good politically but that, in the long run, will provoke severe reaction and deprive us of market opportunities. We need just the right amount of leverage to open more doors, not have them slammed in our face.

VI. Conclusion

The months and years ahead must not be dominated by rigid ideologies on either side--but neither can the President or the Republican leadership be expected to cast aside the principles of Government the American people so soundly endorsed in 1980. Those principles--a more restrained Government, a freer economy, greater accountability to the American people--are as valid today as they ever were, and there is no indication that the people have changed their commitment to these same principles. Guided by these principles, we will try to work together to build on the sound foundation for recovery that has already been laid.

TRADE MATTERS FOR VOLUME FOOTWEAR RETAILERS OF AMERICA SPEECH

March 19, 1983

IMPORT RESTRICTIONS

The primary trade-related concern of the Volume Footwear Retailers is the possibility of new restrictions on the importation of shoes into the United States. As a result of declining production and employment in the domestic footwear industry over the last 15 years there has been tremendous pressure to limit imports.

- o In 1977 the domestic industry instituted an "escape clause" investigation requesting restrictions on imported footwear.
- o The International Trade Commissioner recommended quantitative restrictions and President Carter then negotiated Orderly Marketing Agreements (OMA's) with Taiwan and Korea under which imports from these countries were restricted for four years.
- o The OMA's expired June 30, 1981, and the President refused to extend them notwithstanding considerable Congressional pressure for extension. (You did not sign the letter to the President urging an extension.)
- o By law the domestic industry is eligible to refile for import relief again in June 1983.
- o In the meantime the domestic industry has filed for import relief under a different statute (section 301) but the USTR has refused to take action. It did, however, leave open the possibility of a reconsideration.
- o There will undoubtedly be future requests for import relief because conditions are not good in the domestic footwear industry and it has significant political power.
  - -- It employs about 200,000 people directly and indirectly.
  - -- It has 700 plants in 38 states.
  - -- In the last 15 years imports have increased over 100 percent and now accounts for over 50 percent of the U.S. markets and this penetration appears to be going higher.

-- In the same period, approximately 350 plants have closed and 90,000 workers have lost their jobs.

-- Domestic production of shoes declined by 267 million pairs in the last 15 years.

o While there are obvious consumer advantages to having less expensive imports, it is clear that there will again be enormous pressure for the President and the Congress to take action.

o One thing the Volume Retailers can do to lessen this pressure is to encourage the Governments of the exporting countries with which they do business (particularly Taiwan and Korea) is to purchase American goods and services.

o Another thing is to encourage these Governments (particulary Taiwan) to take decisive action against such unfair trade practices (such as the counterfeiting of American goods) which are costing U.S. producers billions in trade.

o Keeping the U.S. market open is going to be hard because of Congressional dissatisfaction with the current international system and everyone including importers has to do everything they can to see to it that U.S. workers and producers get the maximum advantages that are possible.

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Shoe Fits
...es in Trouble

The Troubled U.S. Footwear Industry Is Kicking for Relief from Imports

The domestic producers, complaining that a surge of shoe imports in the past year and a half has stalled their efforts to rebuild, are seeking government protection.

BY CHRISTOPHER MADISON

Nearly two years ago, President Reagan struck a blow for free trade by lifting quotas on imported shoes. Now the struggling U.S. shoe industry is about to knock on Reagan's door for relief.

The issue is jobs. The domestic shoe producers say they have lost 20,000 jobs since June 1981, when Reagan lifted quotas on shoes from Taiwan and Korea, two of the three largest foreign suppliers (with Italy) of shoes to the United States.

The shoe producers say that the surge of imports in the past year and a half has stalled its efforts to rebuild the ailing industry and that more protection is needed so that those efforts can be completed.

According to Fawn Evenson, executive director of the Footwear Industries Association Inc., the manufacturers' goal seems modest: they would like to hold on to a 50 per cent share of the domestic market. "We're never going to get back to 80 per cent," roughly the market share they held in 1968, the peak year, she said in an interview. The domestic manufacturers now have less than 50 per cent.

Because free trade is not quite the apple pie issue it was in 1981, the footwear industry has to be given at least an even chance of success.

To improve its chance, Evenson and her industry have begun a sophisticated legal, lobbying and public relations campaign. Last September, the footwear group, along with two AFL-CIO affiliates, the United Food and Commercial Workers International Union and the Amalgamated Clothing and Textile Workers Union, filed an unfair trade petition with U.S. Trade Representative Bill Brock.

The petition, authorized by Section 301 of the 1974 Trade Act, charges eight foreign footwear producers with unfair practices and asks Brock to negotiate an end to the practices or recommend retaliation to President Reagan.

To make sure Brock got the point, the shoe industry gathered support from 50 Senators and 100 House Members, who signed a letter urging him to accept the petition. A letter to Reagan followed.

The petition itself is not likely to produce fast or complete results. In December, Brock rejected the charges against the four European producers named in the petition because, he said, the industry needed to present more information. And while negotiations are beginning with the four other producers—Taiwan, Japan, Brazil and South Korea—the talks are restricted to discussing U.S. access to those markets, not the flood of imports into the United States.

Most trade experts see the unfair trade case as merely a prelude to an industry request for import quotas later this year. By filing the petition, getting the attention of Brock and the rest of the Administration and lining up support in Congress, these observers believe, the footwear group has paved the way for full consideration of a request for more direct relief, such as quotas, this summer.

The industry must wait until then for technical reasons. Under the Trade Act, a company cannot request new import relief until two years after relief was last provided. Because Reagan allowed the earlier quotas to expire on June 30, 1981, the industry must wait until July 1 to file a new request.

Evenson denies that the present proceeding is just a warm-up. "At this point, we have not decided whether to file" a so-called escape clause case next summer, she said.

Under the "escape clause," formally known as Section 201 of the Trade Act, an industry can request temporary relief from imports if it can show that it is in economic difficulty and that imports are a principal cause of the problem.

HARD TIMES

No one disagrees that the American shoe industry has had its economic problems. Domestic production declined from 422 million pairs in 1976 to 375 million in 1981. Estimates show that there was a further decline last year.

Employment in the U.S. shoe industry declined 12 per cent from 164,200 in 1976 to about 143,000 in 1981—and probably more since then. The number of hours worked declined 17 per cent during the same period. Imports have increased only slightly in absolute terms, from 370 million pairs to 375 million, but as a percentage of consumption, they have grown from 47 per cent in 1976 to about 51 per cent in 1981 and higher since then.

What concerns the domestic shoe manufacturers is the surge of imports following Reagan's decision to lift quotas on shoes from Taiwan and Korea in mid-1981. While imports held a 50 per cent share of the market for the first seven months of 1981, they captured 60 per cent a year later. And while domestic production declined during the period by about 28 million pairs, imports increased by about 73 million. So did consumption: from 424 million pairs for the first seven months of 1981 to 470 million for the same period in 1982.

Not surprisingly, imports from Taiwan and Korea increased by about 73 million pairs for the January-through-July period while imports from other major suppliers remained relatively stable.

The shoe industry argues that it was on the road to recovery in 1981 but was not there yet, according to Evenson. Domestic firms, she said, needed at least two more years of protection to give them time to make new investments, and those investments would be made only if the

Frye Workers Got the Boot from Seoul

A "few hundred"—management doesn't like to be too specific—of the 20,000 jobs lost in the U.S. shoe industry since the summer of 1981 disappeared last June in Marlboro, Mass.

Marlboro, a small city just west of Boston, is the home of the Frye boot, made since 1863 by the John A. Frye Shoe Co. Inc. Last June, workers at the Frye plant were put on indefinite layoff, and the company still does not know when they will be called back. They say they hope it will be soon. Meanwhile, production continues at the company's two other plants in Tennessee and Pennsylvania.

Milton Neusner, the company's executive vice president, says competition from imports was only one reason for the layoffs. About a fourth of Frye's lost sales could be attributed to competition from Frye-type boots made in Taiwan and South Korea and sold in the United States far below Frye's premium prices.

But another problem was the change in fashion. The shoe industry rode the western fashion look in women's shoes for a few years, but the cowgirl look is apparently no longer *au courant*. Although Frye at one time did not make western boots, it adapted to meet the trend, and when it died, so did its sales.

In an effort to recover, Neusner said, Frye was developing a new line of women's soft leather shoes. "We expect to fully recover our business," he said. Recovery in the U.S. economy would also improve the picture, he added.

Frye is not a big company by shoe industry standards. Before the layoffs, it had 1,000 employees. The Brown Shoe Co. of St. Louis, by contrast, has about 12,000. But Frye is typical in that it is struggling to keep up with imports by adding technological innovations and trying new fashion lines. The fact that Frye has been taken over by a conglomerate—Alberto-Culver Co.—also is common in the industry. Whether the workers return to the Marlboro plant soon probably will say a lot about the industry's health.

Fawn Evenson, executive director of the Footwear Industries Association Inc., wants to give the American shoe industry a lift.

companies knew the Taiwanese and Koreans would be held at bay for a little longer.

The U.S. International Trade Commission, the independent body that has the responsibility for making recommendations to the President on escape clause actions, agreed in part.

In a report to Reagan in April 1981, the commission unanimously recommended that quotas on Taiwanese imports, but not on those from Korea, be continued for two more years.

"We believe that the industry is on the threshold of recovery and that extension of the present relief should make it possible to preserve these jobs after extended relief expires," the commission wrote.

Reagan rejected the advice. During his first year in office, the Administration wanted desperately to establish itself as a supporter of free trade but had been forced by a Reagan campaign pledge to take a protectionist position on pressing the Japanese to limit their automobile shipments to the U.S. market.

It also had embarked on a protectionist course on textiles, promising the domestic industry that it would work to protect American textile jobs in the 1981 negotiations over the Multifiber Arrangement, the international textile treaty.

But the shoe industry—or, as it is more formally known, the footwear industry—does not carry the same degree of clout as auto, textiles or steel fallout: the footwear labor force of 130,000 is almost invisible in a national labor force of more than 100 million.

"When a shoe plant closes, it's a couple of hundred jobs," said Rep. James M. Shannon, D-Mass., whose district is a mixture of old and new industries, including shoes. When the General Motors Corp. plant in his district closed, Shannon said, it meant more than a thousand jobs. Though he is a supporter of the shoe industry, he admitted, "I don't get as much constituent pressure as I used to."

There was another reason for Reagan's decision. The Administration was in the process of mending its fences with the People's Republic of China, and that inevitably meant bruised relations with Taiwan. So the shoe decision was a relatively painless way to score points with Taiwan.

When Reagan made his move, his assistant for communications, David R. Gergen, said the decision would have little impact on employment. The shoe manufacturers said it would cost them 36,000 jobs. So far, the result is in between—the industry says it has lost 20,000 jobs since July 1981.

DIVERSION

Although it is heretical to say so in shoe circles, the decline of the American industry could be considered inevitable. The United States has the most open market for footwear in the world. Asia has the cheapest labor force. Even though American footwear workers are not exorbitantly paid at $5 an hour, the industry is an old one, and technological improvements to make it more efficient will require large investments.

The footwear group's Evenson acknowledges that the industry was hurt by the retailing revolution in the United States after World War II. Because of mass retailing, a foreign shoemaker could keep its production line busy for a year with a single large order from Sears, Roebuck & Co. or another of the major retailers, Evenson said.

This leads Evenson to the industry's major complaint. Because most of the world's significant footwear markets are restricted, the argument goes, the major suppliers, which are centered in the developing countries, divert their shoes to the U.S. market, which is relatively open.

In its petition to Brock last September, the footwear group presented a multifaceted case. It alleged that Brazil, Japan, Taiwan, Korea, France, Italy, Spain and the United Kingdom, as well as the European Community as a whole, restrict shoe imports. Then it estimated that 100 million pairs of shoes were being diverted to the U.S. market because of those restrictions. That is more than a fourth of all U.S. shoe imports.

Unfortunately for the shoe industry, Brock did not buy the diversion argument. In fact, he dismissed all of the allegations against the European Community, France, Italy, Spain and Great Britain for lack of enough information. What was left was the case against Taiwan, Korea, Brazil and Japan, and only those aspects dealing with alleged import restraints by those countries, not the extent to which their producers divert supplies to the U.S. market.

"Diversion is our major argument," Evenson said. Although shoe manufacturers in the United States have increased their exports somewhat and would like access to foreign markets, their long-range health depends on the extent to which they can stem the tide of inexpensive shoes allegedly being diverted to the U.S. market.

The diversion argument is not totally dead. Brock invited the industry to come up with facts to support its charges and resubmit its case. He also directed his staff to work with the industry in trying to put together the data.

"It is clear that diversion can exist," said Thomas St. Maxens, who is in charge of that effort. "We do not know whether it is happening in footwear." The way to prove it, he said, is to show, for example, that while quotas were in effect, a certain volume of Korean shoes moved to, say, France, and that when quotas came off, the French volume switched back to the United States. Those data have not turned up.

Brock's staff does not oppose the diversion argument philosophically, said Christine Bliss, a lawyer in the trade office who is working on the footwear proceeding. But she noted that the argument assumes that foreign producers have clear production limitations, a hypothesis that is hard to prove. For example, when the quotas on imports from Taiwan and Korea were lifted, did the increased shipments to the U.S. market come from other markets? Or were they a result from increased production in Taiwan and Korean factories? The necessary data are not available yet.

At least one other kind of diversion has been documented, however. After the quotas were imposed on Taiwan and Korea in 1977, U.S. shoe industry officials noticed that shipments from Hong Kong increased suddenly and dramatically. The shoe industry officials alleged that Taiwan was shipping its material to Hong Kong for assembly before the eventual sale of the finished products to the United States.

The Top Ten—At Home and Abroad

(1981, in millions)

FOOTWEAR IMPORTERS	Shipments to U.S.	LEADING FOOTWEAR STATES	Production
Taiwan	119	Maine	48
Italy	50	Missouri	42
S. Korea	44	Pennsylvania	37
Brazil	43	Tennessee	35
Hong Kong	28	Massachusetts	25
Spain	19	New York	25
Philippines	13	Florida	23
China	7	Arkansas	29
Mexico	7	New Hampshire	18
Thailand	6	Ohio	18
All others	39	All others	75
Total	375	Total	375

SOURCE: Footwear Industries Association Inc.

The United States negotiated an agreement with Hong Kong under which the latter certified that all shoes exported to the United States from Hong Kong originated there, and the suspected diversion disappeared.

The Section 301 petition is being resisted by the footwear importers, who are organized as the American Association of Exporters and Importers-Footwear Group. "For the small and medium-sized firm, the threat of renewed U.S. [import] restraints is an issue of business survival, not merely of potentially diminished profits," the group said in a memorandum to Brock last November.

Like all importers fighting trade restrictions, it also evoked the broader free trade theme: "The group opposes trade restraints at home or abroad, in principle and in practice. The group supports U.S. government efforts to open foreign markets, to reduce impediments to trade wherever they exist and to strengthen the international trading system."

Another group in the shoe trade, the Volume Footwear Retailers of America, is staying out of the case. The trade group includes most large shoe retailers, which carry the bulk of the lower-priced imports as well as some domestic shoes.

"We did not take a position in the case," said Peter Maggiore, the retailers' Washington representative. "I am in favor of open trade in footwear. If there are barriers [to U.S. shoes in other countries], they ought to be knocked down."

Although most in the footwear industry are publicly restrained, there is a good deal of gnashing of teeth in private over the import issue. According to Stephen Lande, a trade consultant who is giving advice to the importers, those in the imported shoe business find it ironic that domestic manufacturers are now seeking to open up other markets because, he said, the industry resisted efforts to lower U.S. shoe tariffs as part of the multilateral trade negotiations that ended in 1979. The domestic industry took other protectionist positions during the 97th Congress.

This has led to skepticism in the import community about the footwear group's Section 301 petition to Brock. "They're frustrated with the provision of the law [that requires a two-year waiting period], and they need to focus public attention on their case" until they file a request for import protection, an importer said.

Evenson insists, however, that the industry is not counting on quotas in the future.

The 301 petition promises only vague and limited relief. U.S. negotiators expect Brazil, South Korea, Japan and Taiwan to have ready arguments for not opening up their markets to American shoes. Brazil, for example, has canceled all import licenses during its current economic crisis. And Korea will defend its import licensing procedures on the ground that they are needed to control foreign exchange.

If the bilateral negotiations, which started last month, do not produce results, Brock has the option of taking the case to the General Agremeent on Tariffs and Trade in Geneva. But nothing happens quickly there.

The shoe may fit better at the White House next July. □