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COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20248

JANUARY 24, 1980

B-197242

The Honorable Abraham Ribicoff  
Chairman, Subcommittee on  
International Trade  
Senate Committee on Finance

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The Honorable Charles A. Vanik  
Chairman, Subcommittee on Trade  
House Committee on Ways and Means

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Subject: [Barriers Still Exist to the Full Development  
of the Trade Monitoring System Required by  
the Trade Act of 1974] (FGMSD-80-7)

We met with representatives of your offices to discuss our observations concerning the status of development of the Trade Monitoring System and uses made of the system-produced data required by the Trade Act of 1974. Because your offices felt that our observations and findings would stimulate action to improve the system and would highlight the system's problems for members of the full committees as well as for other congressional committees and executive branch officials responsible for trade monitoring activities, your offices suggested we formally transmit our observations.

In addition to this report, in an earlier report 1/ we discussed trade monitoring activities as they affect the Community Adjustment Assistance Program described in Chapter 4 of the Trade Act of 1974.

The Trade Monitoring System was authorized by section 282 of the Trade Act of 1974 (Public Law 93-618), to (1) provide information on the volume of all foreign imports, (2) compare the volume of specific imports with the changes in volume of domestic production of like goods, and (3) relate this information to changes in employment. The system is intended to provide such trade monitoring data by region.

The act requires adequate procedures for safeguarding American industry against unfair or injurious import competition, and to assist industries, firms, workers, and

1/"More Can be Done to Identify and Help Communities Adjust to Economic Problems Caused by Increased Imports," CED-79-42, May 15, 1979.

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communities to adjust to changes in international trade flows. However, in the 5 years since the Trade Act was enacted, the executive branch still has not produced a fully developed system, and consequently, only limited use has been made of trade monitoring information.

Some of the barriers that still exist to a fully developed system are:

- Poor comparability of trade, production, and employment data coding systems.
- No funding for the Bureau of Labor Statistics and limited funding for other agencies to develop trade monitoring systems. AGC00334
- Limited staffing.
- Reluctance of the Bureau of Labor Statistics to disseminate and promote the use of trade monitoring data. (The Bureau believes that the data does not meet its standards for publication and the intent of the Trade Act is only to provide limited dissemination of the data.)

The trade monitoring data now available is useful even with the technical limitations on comparing some trade, production, and employment data. We believe that if the Bureau of Labor Statistics is given the funds it needs, this trade monitoring data can be improved and even expanded for use in the future by threatened U.S. industries.

The improved data could be analyzed in greater detail by commodity analysts and be the basis of an early warning system which would alert domestic manufacturers to potential foreign competition. However, because the executive branch is reluctant to expand the Trade Monitoring System into an early warning system, the direction must come from the Congress.

MATTERS FOR CONSIDERATION BY THE HOUSE  
SUBCOMMITTEE ON TRADE AND THE SENATE  
SUBCOMMITTEE ON INTERNATIONAL TRADE

If the Congress wishes to fully develop a trade monitoring system, we believe that your subcommittees should direct a single agency to develop a plan for removing the barriers to a fully developed Trade Monitoring System, and should consider changes to the Trade Act of 1974 based on the plan, as

feasible. The proposed plan should study (1) potential users and beneficiaries of trade monitoring data, (2) input data comparability and reliability, (3) costs versus benefits of trade monitoring as a concept to better justify budget requests, (4) the actions needed to expand a Trade Monitoring System into an early warning system, and (5) responsibilities for coordinating, developing, maintaining, analyzing, and disseminating trade monitoring data.

We discussed this report with officials of the Bureaus of Labor Statistics, International Labor Affairs, and the Census, and the International Trade Commission and considered their comments in the report. They agreed with our conclusion that the Trade Monitoring System, as required by section 282 of the Trade Act, has not been fully developed.

Initially, we suggested that a single agency be given overall responsibility for the Trade Monitoring System. However, Bureau of Labor Statistics officials pointed out that making a single agency responsible would not necessarily result in a more effective or efficient operation. They believe that the written agreement between the Bureau of Labor Statistics and the Bureau of the Census stating each agency's responsibilities is adequate to ensure that the Trade Monitoring System is developed and maintained.

Although this joint agreement has provided for the management of the Trade Monitoring System thus far, since the system has not been fully developed, we believe the management responsibilities need to be reexamined. Therefore, we suggest that this issue be addressed by the proposed plan.

SCOPE OF REVIEW

In performing this examination of the Trade Monitoring System, we reviewed congressional and Department of Labor <sup>AGC 00009</sup> and Department of Commerce reports, studies, memorandums, and other documents. We also interviewed officials of the Departments of Labor and Commerce, the International Trade Commis- <sup>AGC 00100</sup> sion, the Office of the Special Trade Representative, the Office of Management and Budget, and private organizations, such as a labor union. <sup>AGC 00038</sup>


AGC00074

Our fieldwork was performed between November 1978 and January 1979, and additional information was obtained in July and December 1979.

As arranged with your offices, we are sending copies of this report to the Director, Office of Management and Budget; the Chairmen, Senate and House Committees on

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Appropriations; the Secretaries of Commerce and Labor; and the Commissioner, International Trade Commission. Copies will also be made available to other interested parties.

  
Comptroller General  
of the United States

Enclosure

OBSERVATIONS ON THE STATUS OF DEVELOPMENT  
OF THE TRADE MONITORING SYSTEM  
AND USES MADE OF ITS DATA

PURPOSE OF TRADE ACT MONITORING SYSTEMS

The Trade Act of 1974 requires the Federal Government

"to provide adequate procedures to safeguard American industry and labor against unfair or injurious import competition, and to assist industries, firms, workers, and communities to adjust to changes in international trade flows."

To help achieve this purpose, section 282--the Trade Monitoring System--mandates that the Secretaries of Commerce and Labor establish a joint program to monitor the relationship between volume of imports and changes in domestic production and employment. Such a monitoring system would identify private sector and geographic vulnerability to imports so that the Federal Government could give assistance as quickly as possible. The Bureau of Labor Statistics (BLS) and the Bureau of the Census are jointly developing such a system.

Section 410 of the Trade Act authorizes a second trade data system, the East-West Trade Statistics Monitoring System, to be maintained by the International Trade Commission (ITC). This system's purpose is to provide data on the effect on U.S. production and employment of trade with nonmarket economy 1/ countries, and to identify imported items that compete with domestically produced items and assesses the economic impact of that competition on the affected industry.

NEED FOR TRADE MONITORING DATA

The need for more meaningful trade monitoring data has been recognized by the Senate Committee on Finance, other Government officials, and persons in other organizations familiar with problems raised by increased imports and declines in our international competitiveness. We have recognized this need in other reports and we report on it further here.

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1/Nonmarket economy countries are those having centrally planned economies, such as Russia, East Germany, Poland, and Hungary.

Before the Trade Act was enacted in January 1975, congressional consideration of possible trade monitoring activities was broader than the act's actual language. The Senate Committee on Finance Report 1298 lists one of the bill's (H.R. 10710) purposes as

"to provide greater access and more effective delivery of import relief to industries, firms and workers which are seriously injured or threatened with serious injury by increased imports."

Furthermore, in the report's discussion of how the trade monitoring system would achieve this purpose, it states that "the information could serve as an early warning of serious dislocation from abrupt increase in imports."

In our report on adjustment assistance to firms under the Trade Act of 1974 (ID-78-53, Dec. 21, 1978) we estimated that 14,700 firms in the manufacturing sector believed that they had been hurt by imports. This estimate was based on our survey of 400 firms in 29 industries that were affected by imports. We believe these firms, which represent about 1 firm in 20 in the U.S. manufacturing sector, could have benefited from an early warning system.

Other indications of injury due to imports have also surfaced. For example, during the last 2 quarters of calendar 1978, the International Trade Commission determined that seven industries suffered import injury or market disruption. For products of 11 other industries, the Commission published notices of hearings or investigations because of suspected import injury.

In a recent report (CED-79-42, May 15, 1979), we showed that the necessary resources must be committed to a trade reporting system for identifying the geographic areas most vulnerable to imports. Such a system would help assure that communities threatened by imports would be considered for special attention. In an earlier report (ID-78-5, Dec. 6, 1977) to the Chairman of the Subcommittee on Trade, House Committee on Ways and Means, we discussed a prenotification system which would require firms in an industry which the International Trade Commission has ruled to be affected by imports, to report any major layoffs, closings, or moves, regardless of their cause. We said that this information would help determine the "threat of injury" to workers, firms, and communities. It would also provide the Secretaries of Labor and Commerce with a stronger data base for estimating the number of workers and firms likely to be certified for adjustment assistance.

Further, Section 286 of H.R. 1543, which contains Trade Act changes now being considered, authorizes the Secretary of Commerce to make special studies of industries threatened by imports; study results would form the basis for technical assistance. In the past, we have also supported this kind of study.

An accurate trade monitoring system, which considers early warning, would form a necessary base for the above activities and effectively expand the scope of the BLS Trade Monitoring System beyond its current role in supporting assistance programs.

We discussed the full scope, maintenance, and use of an early warning system with seven Federal officials involved in producing, analyzing, and using trade data. They generally felt that early warning would require more data analysis than the Federal Government is presently capable of making. However, they believed that the statistics and technical knowhow are available with which to transform a monitoring system into a warning mechanism.

An early warning mechanism should help U.S. industry defend against loss of market share to foreign products. Such a mechanism would forewarn the private sector of market disruption and thereby forearm it so that corrective economic action could be taken to reestablish the international competitiveness of that segment of industry. Appropriate action would also have positive effects on other problems caused by loss of market share, such as our balance of payments deficits.

EXECUTIVE BRANCH RESPONSE TO  
MANDATE FOR TRADE MONITORING

It is now 5 years after the Trade Act was enacted and still no system exists within the Federal Government that is fully responsive to the mandate of section 282. However, the development effort by BLS and the Bureau of the Census to satisfy section 282 continues. In addition, two pilot research efforts have taken place--one by the Economic Development Administration (EDA) of the Commerce Department and the other by the International Labor Affairs Bureau and the Employment and Training Administration of the Labor Department. Each of those efforts has drawn substantially on the import, production, and employment data generated by the BLS/ Census system. The International Trade Commission's East-West Trade Statistics Monitoring System has also been developed in response to section 410 of the Trade Act. These four activities are described below.

Trade Monitoring System

- Agencies involved: Bureau of Labor Statistics, Department of Labor; Bureau of the Census, Department of Commerce.
- Origin: Section 282 of the Trade Act of 1974.
- Purpose: To monitor, on a geographic basis, imports affecting domestic production and employment.
- Status: Although the system is not fully developed, trade monitoring reports are issued which various Federal analysts can use to some extent in initially screening industries affected by imports. To be fully useful, the reports must compare domestic production and imports more accurately. However, until the input data coding systems are standardized, accurate comparisons are not possible. The usefulness of the system's data, therefore, is limited.
- Staffing: 2-1/2 staff-years.

Import monitoring system

- Agency involved: Economic Development Administration, Department of Commerce.
- Origin: Initiated to fulfill the requirements of section 282 of the Trade Act, in particular, the geographic specificity requirement.
- Purpose: To determine how imports had affected employment at the county level for an entire industry. (This information was not available from the Trade Monitoring System.)
- Status: The system was designed and developed principally by one analyst who was in a temporary position at EDA. When he left, system operation was suspended and currently no reports are published. The system drew substantially from the BLS/Census system and obtained its county-level data from a commercial source.
- Staffing: One analyst for 1 year.



Localized early warning system

- Agencies involved: International Labor Affairs Bureau and the Employment and Training Administration, Department of Labor.
- Origin: Self-initiated research project of a Deputy Undersecretary of Labor task force.
- Purpose: To provide early warning of unemployment trends at the local level and to identify specific worker groups that could be affected by imports.
- Status: Pilot program now operating in Louisiana; results to be reported in March 1980. The program is an extension of the BLS/Census system.
- Staffing: 5-1/2 contract staff-years to be expended over 18 months, plus part-time effort by a Bureau analyst.

East-West Trade Statistics Monitoring System

- Agencies involved: International Trade Commission and the Treasury Department (mandated recipient of the quarterly report).
- Origin: Section 410 of the Trade Act of 1974.
- Purpose: To monitor the effects on U.S. domestic production and employment of imports from and exports to nonmarket economy countries.
- Status: Reports quarterly to the Treasury Department's East-West Foreign Trade Board. Similar to the BLS/Census Trade Monitoring System in concept and input data.
- Staffing: 2-1/2 staff-years.

Coordination between Federal agencies of trade monitoring activities

In September 1977, the Commerce/Labor Adjustment Action Committee (CLAAC) was created as an informal, voluntary inter-agency mechanism to coordinate all Trade Act adjustment assistance programs, including those engaged in monitoring trade data. CLAAC functions through three subcommittees: (1) information, (2) integrating adjustment assistance, and (3) emergency responses.

The Subcommittee on Information was assigned responsibility for coordinating the Commerce/Labor trade monitoring activities. It is charged with, among other functions, developing a system for early identification of adversely affected groups and coordinating the industry analysis and trade monitoring program required by the Trade Act. The Subcommittee delegated these tasks to a technical working group having members from the Census Bureau, EDA, and Industry and Trade Administration of the Commerce Department; the Bureaus of Labor Statistics and International Labor Affairs, and the Employment and Training Administration of the Labor Department; the International Trade Commission; and the Special Trade Representative.

Although subcommittee members said that coordinating efforts have been significant, records providing details of those efforts did not exist. Moreover, the subcommittee's activities are not directed toward correcting the problems noted in this report.

#### Use of trade monitoring data is limited

Among the four activities described above, only the BLS/Census Trade Monitoring System collects data on all commodities as well as distributes it to a variety, though limited number, of users. The EDA import monitoring system has not been maintained since its primary architect could not be retained in his temporary, 1-year position; the International Labor Affairs Bureau/Employment and Training Administration system is still in the pilot stage and presently is used only in Louisiana; and the ITC system, while maintaining a mailing list of 1,500, only reports on trade with nonmarket economy countries.

The BLS/Census system products are routinely sent to 23 individuals representing 13 different organizations in Government and industry. We contacted each organization and learned that the data was extremely useful to some analysts and of no value to others. For instance, an official of the Office of the Special Trade Representative said the information has been extremely useful during multilateral trade negotiations. On the other hand, in discussing the data's value with 10 Commerce Department analysts responsible for 35 import-sensitive industries, we found that 6 analysts were unaware of the data and 4 used it little, if at all.

#### WHY ARE TRADE MONITORING ACTIVITIES NOT FULLY DEVELOPED AND DATA USAGE LIMITED?

Technical problems, lack of funding, constraints on staff time, and a reluctance to widely disseminate system output

have all contributed to incomplete development and limited availability of Federal trade monitoring system data.

Major technical obstacle:  
lack of comparability

Section 608(a) of the Trade Act of 1974 mandates that the executive branch seek comparability of export, import, and domestic production data. Much progress has been made in relating exports and imports; however, similar success has not been achieved between imports and exports and domestic output. The differences between these two coding systems--one based on commodities and the other on industries--are widely acknowledged in Government and industry as nearly insurmountable and are under continuous study. A detailed discussion of these differences is beyond the scope of this letter. Moreover, in past reports we have addressed this issue as it affects Federal trade and commerce programs. <sup>1/</sup> However, in spite of the technical limitations, 5 of 13 organizations contacted said the data is still useful. Therefore, these problems should not unduly influence decisions to either fund the activity or disseminate the data to appropriate users.

Useful trade monitoring  
uncertain without funding and staffing

Federal agencies also cited a lack of funding and constraints on personnel resources as problems in developing trade monitoring systems. These problems have resulted in insufficient levels of system design and analysis, programming support, and computer time. Since the Trade Act was passed in 1974, the Bureau of Labor Statistics has not received any funding for the system. Responsibility for this lack of support has to be shared by all levels of budget approval--the Department of Labor, the Office of Management and Budget (OMB), and the Congress.

Department of Labor support for the program has been weak. For example, BLS proposed an amendment to a supplemental request for 11 positions and \$205,000 for fiscal 1978. However, the Department delayed this request so long that it was impractical to send it to OMB for approval. Because of

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<sup>1/</sup>Letter report to Charles A. Vanik, Chairman, Subcommittee on Trade, House Committee on Ways and Means, ID-78-5, Dec. 6, 1977; and "More Can be Done to Identify and Help Communities Adjust to Economic Problems Caused by Increased Imports," CED-79-42, May 15, 1979.

the pending supplemental request for fiscal 1978, the Bureau did not submit a proposal to the Department for funding of trade monitoring work for 1979.

Trade monitoring funding requests for fiscal 1976 and 1977 were not approved by OMB; consequently, system development and solutions to technical problems were stalled during those periods. OMB doubts the ultimate utility of the Trade Monitoring System because the trade, production and employment data coding systems were developed independently, for different purposes, and contain internal differences.

The only Bureau funding request that reached the Congress was a fiscal 1975 "Departmental Management" request for a \$550,000 supplemental appropriation that was submitted to the House Appropriations Committee. Included in the request were 10 positions earmarked for BLS in the Bureau of International Labor Affairs budget. However, the Committee said the positions should be used for the Bureau of International Labor Affairs and the Office of the Solicitor, and BLS has yet to receive specific resources for trade monitoring.

Other agencies have had varying degrees of success in obtaining funds and personnel to carry out their monitoring programs. For example, while the International Labor Affairs Bureau and Employment and Training Administration partnership has funded the development of its early warning system, the Bureau analyst developing the system only works part-time on it. The Economic Development Administration was not as fortunate. The temporary appointment of its full-time analyst could not be extended, and with his departure the system ceased operation.

BLS/Census policy toward analysis,  
forecasting, and data publication

In defining its role in collecting and disseminating trade monitoring data, the BLS/Census team did not include several important aspects incumbent on it as a provider of such data. Among these are:

- An analytic capability which, if developed as part of the trade monitoring system, could respond to other agencies' needs and support them in their mission-oriented applications of trade, production, and employment data. They felt that these specific applications should reside with the particular agencies with the mission-oriented expertise.

--A forecasting capacity to provide early warning not only to Federal agencies involved in adjustment assistance but also directly to industry groups through Department of Commerce analysts. They felt that their responsibility under section 282 was only to monitor current trends and note abrupt changes with possible domestic impact and not to forecast future trade movements.

In addition, BLS/Census officials noted two reasons they limit availability of their system output. First, although some specific, one-time uses have been made of the data--for instance, support during the recent multilateral trade negotiations--its primary purpose is to support adjustment assistance programs. For this purpose, it is best used by Government analysts as an initial screening device in identifying industries experiencing an increase in import trends. We found this to be the case, because both the Economic Development Administration and the International Labor Affairs/Employment and Training Administration systems use BLS data as a basis for their mission-oriented activity. Secondly, the BLS/Census officials said that the data produced by their Trade Monitoring System is not of sufficient quality and does not meet the normal standards of accuracy needed for routine publication by either BLS or the Census.

Nevertheless, the BLS/Census list of users should be expanded. For example, the Commerce Department's Bureau of Field Operations, an agency which would likely derive substantial direct value from the system and use it for the public's benefit, was unaware of the BLS data or the data from each of the other systems. We showed officials of the Field Operations Bureau samples of the output from the BLS and the Economic Development Administration monitoring systems. They said that because of their continuous contact with private sector firms, information about the impact industrywide of imports--especially as it could be related at the county level using the Economic Development system--would enhance their service to U.S. industry.

The role defined by BLS as a provider of trade monitoring data is not entirely self-imposed. Detailed analysis, forecasting, and communication have been restricted because a lack of funding has prohibited system development. However, BLS officials have made it clear that their interpretation of the Trade Act and the data's economic sensitivity will always limit what they can do with the data, regardless of the system's stage of development.

MATTERS FOR CONSIDERATION BY THE HOUSE  
SUBCOMMITTEE ON TRADE AND THE SENATE  
SUBCOMMITTEE ON INTERNATIONAL TRADE

If the Congress wishes to fully develop a trade monitoring system, we believe that the House Subcommittee on Trade and the Senate Subcommittee on International Trade should direct a single agency to develop a plan for removing the barriers to a fully developed Trade Monitoring System, and should consider changes to the Trade Act of 1974 based on the plan, as feasible. The proposed plan should study (1) potential users and beneficiaries of trade monitoring data, (2) input data comparability and reliability, (3) costs versus benefits of trade monitoring as a concept to better justify budget requests, (4) the actions needed to expand a Trade Monitoring System into an early warning system, and (5) responsibilities for coordinating, developing, maintaining, analyzing, and disseminating trade monitoring data.

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