IV

CONCLUSION

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Conclusion: Making America Fit for Globalization

As this book goes to press in the spring of 2005, trade temperatures are once again rising on Capitol Hill. With the global trade deficit for 2004 at a record $665 billion, and the bilateral imbalance with China at an astonishing $162 billion, 67 US senators have backed, on a procedural vote, a proposal by Charles Schumer (D-NY) and Lindsay Graham (R-SC) to impose a 27.5 percent temporary surcharge on imports from that country. The goal is to force revaluation of China's currency, the renminbi. Senator Evan Bayh (D-IN) placed a temporary hold on President Bush's nomination of Representative Rob Portman (R-OH) as United States Trade Representative (USTR), in an effort to force a vote on his China legislation; others decried the surge in Chinese textile sales brought by the ending of quotas under the Multi-Fiber Arrangement (MFA). Meanwhile, on the House side, Chairman Bill Thomas (R-CA) has chaired a Ways and Means Committee hearing where members of both parties denounced Chinese trade and exchange rate policies and the administration's weak response.

It sounds like the 1980s all over again: Congress bursting at the seams, protectionism about to explode, with China supplanting Japan as prime target. And certainly the economic imbalances of 2005 are, if anything, more worrisome than those that led to the Plaza Accord of two decades before. But in fact, things are not the same in American trade politics. For the decade beginning in 1995 has brought major changes.

First of all, traditional protectionism has clearly faded. Notwithstanding rising trade deficits throughout the period and minimal employment gains following the 2001 recession, there has been remarkably little pressure from business for new trade restrictions. This stands in stark contrast to the situation 20 years earlier, when a then record trade deficit of just over $100 billion triggered a broad range of protectionist demands.

But another source of resistance to trade expansion has burgeoned: concern over the social effects of trade. Legislation to renew presidential negotiating authority failed under Bill Clinton in 1997–98 and barely passed under George W. Bush in 2001–02: By far the most prominently stated reason for opposition was insufficient emphasis on enhancing labor and environmental standards in partner nations. Coupled with this has been broader anxiety over globalization's impact at home, especially on Americans with limited education and skills.

US capacity to address these issues has been weakened by the rise of partisan rancor on Capitol Hill, particularly in the House of Representatives. In past decades, cross-party internationalist coalitions centered in the Ways and Means Committee proved adroit at fashioning compromises on such issues. In 1973, for example, broadening worker eligibility for trade adjustment assistance (TAA) kept many Democrats in the trade-expanding camp. In 2002, a further reform and expansion of that program brought consensus in the Senate—but yielded just four additional Democratic votes in the House, including none of that party's trade leadership. The resulting one- and three-vote House victory margins diluted the Bush administration's mandate for negotiating further trade liberalization and inflated the power of the remaining, entrenched protectionist redoubts like sugar and citrus producers.

Taken together, these striking changes in circumstances call for rethinking core analyses and prescriptions. If business protectionism is a shadow of its former self, then diverting, channeling, and partially accommodating its demands may no longer be as necessary. If a major source of policy contention are matters over which legislators are typically divided along party lines, broad trade policy consensus may no longer be as attainable. If the key House trade committee no longer functions on a bipartisan basis, then a cornerstone of the 1934 system may not be as effective. At the very least, some reconsideration is in order.

Bringing the Benefits of Imports Out of the Closet

For decades, trade policy practitioners have rested their case for liberalization on a half-truth. The goal of trade talks is to secure new export opportunities; reductions of one's own barriers are "concessions" made reluctantly in exchange for export gains. This domestically critical half-truth is replicated in the international arena: The process in the succession of global trade-negotiating "rounds" has been one of benign mercantilism, where exports are good and imports a necessary evil. As recounted throughout this book, this story line has "worked," bringing large cuts in tariffs and nontariff barriers and enormous expansion in the volume of trade. A careful recent analysis estimates that Americans are a trillion dollars better off, every year, due to the gains from international trade.[1]

A policy management system central to this accomplishment should not be lightly abandoned. But what if, unlike in the 1930s or the 1980s, business protectionism no longer threatens to dominate the trade-political process? And what if, by sliding over the benefits of imports, the tried-and-true line of argument puts its purveyors at a serious disadvantage in the now more public trade policy debate? Specifically, if one limits the debate to trade's impact on producers, how does one justify eliminating textile quotas and (hence) thousands of textile jobs? These workers are already at the margin economically—how can we risk pushing them over the edge?

The standard response has been the logic of comparative advantage—whatever hurt is suffered by particular groups, trade leaves the nation as a whole better off. And the victims could theoretically be compensated through redistribution of the gains. But as Dani Rodrik has noted, "Compensation rarely takes place in practice, and never in full."[2] Hence, abandoning textile quotas seems to be helping the richer at a cost to the poorer—unless and until one adds the fact that trade liberalization can offer disproportionate gains to the poor as consumers. Edward Gresser has shown this for tariffs—they apply disproportionately to low-end garments, footwear, etc., which are bought mainly by those with limited incomes. For example, the tariff for garments made from synthetic fibers is typically 6 to 17 times that for comparable garments made of silk.[3] William R. Cline's more comprehensive analysis of the costs of textile protection in the mid-1980s found that the poorest Americans, taken as a whole, lost the most and the richest 20 percent actually gained because of transfers of quota rents to producers and retailers.[4]

Of course, the potential gains from import liberalization are not limited to the poor. For decades, purchasing power comparisons have shown that

1. Scott C. Bradford, Paul L. E. Grieco, and Gary Clyde Hufbauer, "The Payoff to America from Global Integration," in C. Fred Bergsten and the Institute for International Economics, *The United States and the World Economy* (Washington, DC: Institute for International Economics, 2005), chapter 2. This incorporates the impact of technological change and income elasticities as well as reduction or removal of trade barriers.

2. Dani Rodrik, *Has Globalization Gone Too Far?* (Washington, DC: Institute for International Economics, 1997), 30.

3. Edward Gresser, *America's Hidden Tax on the Poor: The Case for Reforming U.S. Tariff Policy*, Progressive Policy Institute Policy Report, March 2002, table 3. See also Gresser, "Toughest on the Poor: America's Flawed Tariff System," *Foreign Affairs*, November-December 2002: 9–14.

4. Cline finds that the lowest 20 percent lose an average of 3.64 percent of income, and the richest 20 percent gain an average of 0.32 percent. See *The Future of World Trade in Textiles and Apparel* (Washington, DC: Institute for International Economics, 2d ed., 1990), 202.

Americans live better, compared to Europeans and Japanese, than their relative incomes based on exchange rates would suggest. The apparent reason is the relatively greater openness of the US economy. Imports also contribute to productivity gains, as producers facing international competition are less free to enhance profits by raising prices and are driven to reduce costs instead. Finally, it appears from the experience of the late 1990s that with unprecedented openness to product and capital flows, the US economy can operate at lower levels of unemployment without triggering inflation. This means that marginal workers are more likely to get hired. Indeed, that was the one period in the past quarter century when US income distribution did not grow more unequal!

If consumers benefit from imports, so of course do businesses—well over half of what Americans buy from abroad does not enter the retail trade but goes to manufacturers in the form of industrial machinery or producer inputs to services industries.[5] Catherine Mann estimates, for example, that "global sourcing . . . of [information technology] hardware resulted in IT prices some 10 to 30 percent lower than they would have been." This in turn fueled investment and workplace restructuring that brought substantial gains in productivity and GDP.[6]

All of this suggests that trade advocates should make fewer concessions to mercantilist trade-speak and be more outspoken about the benefits of trade across the board. They should continue to highlight exports: J. David Richardson's analysis indicates that "worker wages are 10 to 11 percent higher at American plants that export" and that such plants "continuously grow 0.5 to 1.5 percent faster per year and enjoy 8.5 percent lower plant-closure rates than otherwise comparable locally focused plants."[7] But they should encourage import-dependent interests to make their case as well. They should speak out against pressure-diverting processes that are substantially skewed against imports, such as the antidumping laws as currently written and administered. "Contrary to popular wisdom, which celebrates exports and questions imports, economists attribute gains to *both* exports and imports. Indeed, imports are often a more important driver of economic growth."[8] Perhaps, as Brink Lindsey has argued, trade

5. In 2004, 51.4 percent of total merchandise imports were industrial supplies and equipment or nonautomotive capital goods. To these can be added substantial imports of auto parts, and of agricultural products imported for processing. (Percentage calculated from Department of Commerce, *U.S. International Trade in Goods and Services*, December 2004, issued 10 February 2005.)

6. Catherine L. Mann, "Offshore Outsourcing and the Globalization of US Services: Why Now, How Important, and What Policy Implications," in Bergsten et al., *The United States and the World Economy*, 299.

7. J. David Richardson, "Uneven Gains and Unbalanced Burdens? Three Decades of American Globalization," in Bergsten et al., *The United States and the World Economy,* 112–13.

8. Bradford, Grieco, and Hufbauer, "The Payoff to America from Global Integration," 66.

liberalizers should go "all out" for trade openness and abandon the notion that protectionist buyouts are necessary to sustain the policy.[9]

Yet before they abandon the old ways and highlight the two-way gains from trade, advocates of further liberalization must confront a troubling fact. The American public that so benefits from trade is underwhelming in its support of it.

Lukewarm Public Support for Trade Expansion

Fifty-nine percent of Americans see trade as good for the US economy and 73 percent find it good for consumers, but 64 percent view trade negatively in terms of "job security for American workers."[10] Sixty-seven percent support the reciprocal lowering of trade barriers, but 41 percent feel that the pace of liberalization has been "too fast," compared with just 18 percent who regard it as "too slow."[11] Pluralities typically back actual or prospective trade pacts like the North American Free Trade Agreement (NAFTA), the Central American Free Trade Agreement (CAFTA) signed in 2004, or the proposed Free Trade Area of the Americas (FTAA), but they generally see them as benefiting US trading partners more than the United States itself. By a 2 to 1 margin, Americans see "the growth of international trade" as negative rather than positive for American workers.[12]

Support is particularly weak among the less educated and, to a lesser degree, among those with low incomes. Only 22 percent of Americans with less than a high school education are positive about the growth of international trade, compared to 55 percent of those with at least a bachelor's degree. Similarly, just 27 percent of those with household income under $25,000 are positive, compared with 44 percent of those above $100,000.[13]

9. Lindsey, *A New Track for U.S. Trade Policy*, Cato Institute, Trade Policy Analysis 4 (11 September 1998).

10. Chicago Council on Foreign Relations, *Global Views 2004: American Public Opinion and Foreign Policy*, 41.

11. Steven Kull et al., *Americans on Globalization, Trade, and Farm Subsidies*, a Program on International Policy Attitudes (PIPA)/Knowledge Networks Poll, 22 January 2004, 11, 9. In the same survey, only 23 percent of Americans said government should "try to actively promote" trade, compared to 36 percent who responded "try to slow it down," 7 percent who wanted to "try to stop or reverse it," and 31 percent who said government should "simply allow [trade] to continue" (10).

12. Ibid. Forty-eight percent see the growth of international trade as negative for American workers, 25 percent positive, and 24 percent see the impact as neutral.

13. Ibid., 10. Respondents were asked to estimate, on a scale of 0 to 10, "how positive or negative do you think the growth of international trade is for the US overall?" Those above 5 (36 percent) were rated positive; those below (23 percent) were negative, while 38 percent chose 5, the halfway point. The education and income breakouts are not in the publication, but were provided by PIPA to the author upon request.

As Kenneth F. Scheve and Matthew J. Slaughter concluded from earlier data, "It is the less-educated, lower-income US workers who tend to be most concerned about globalization."[14]

Uneven Distribution of Gains from Trade Expansion

Those US workers may well be right. It is "a deeply troubling fact," in the words of former Treasury Secretary Robert Rubin, "that over the past 25 years the median real wages in the United States have been roughly stagnant, and median real incomes up a small fraction of real growth. . . . Thus, a large number of our citizens did not have wages or incomes that benefited much, if at all, from the great economic success of our country during that period."[15]

Over the past several years, the Institute for International Economics has been reviewing the societal impact of international engagement in its Globalization Balance Sheet (GBS) project. In his draft summary of its findings, project director J. David Richardson finds greater than anticipated gains for Americans "fit" for global competition—the well educated, with relevant skills, working in competitive firms. But "some global linkages have darkened the prospects for a large number of Americans." Though one cannot fully separate the impact of internationalization from other forces (technological change in particular), "it is hard to dismiss the possibility that typical, middle-class Americans have enjoyed only modest gains from global integration, and that lower-middle-class American workers have often suffered losses—exactly the perception that surveys and polls tend to reveal. And it is equally hard therefore to dismiss as alarmist the popular 'backlash' against *further* American moves toward global interdependence."[16]

Of course, the idea that trade can impact income distribution is hardly new. The classical Heckscher-Ohlin model noted that trade benefits a nation's abundant factors of production and penalizes its scarce factors. As elaborated by Stolper-Samuelson, this means that in a country where labor is scarce (relative to its availability in other nations), trade will hurt

14. Scheve and Slaughter, *Globalization and the Perceptions of American Workers* (Washington, DC: Institute for International Economics, 2001), 96.

15. Address at the Institute for International Economics, 15 February 2005. Measured in 1982 dollars, average weekly earnings for "private nonagricultural industries" peaked at $311 in 1977, fell to $258 by 1995, then rose to $276 in 2000 and have stayed at roughly that level since (*Economic Report of the President*, 2005, table B-47, 266). Average family income did better, as the number of workers per family rose and family size declined.

16. J. David Richardson, "Global Forces, American Faces: US Economic Globalization at the Grass Roots," Institute for International Economics, Working Draft, January 2005, 5, 6. Quoted with permission.

labor. In his comprehensive review of the issue, William R. Cline finds that this has happened in practice to American workers with limited skills: Expanded trade, he calculates, contributed about 6 percent to the increase in the gap between skilled and unskilled wage rates from 1973–93, and is projected to contribute 4 percent to the gap in the ensuing two decades.[17] When one adds technology to the mix,[18] as well as labor migration across US borders, it is the less technically proficient worker who is most disadvantaged. Indeed, drawing on the work of Lori Kletzer, the GBS project finds that "the personal capabilities of American workers seem to loom far more significantly in their labor-market woes than the exact sector in which they work."[19]

Globalization has also put pressure on organized labor. "Increased international trade has not been the major factor in the [sharp] decline" of unionization rates among American workers, concludes a GBS study by Robert E. Baldwin, but surging imports did contribute significantly to deunionization among workers with just a basic education (12 years or less).[20] Though an increasing share of organized labor works outside of trade-impacted industries, there is some reality to match the perception that trade has contributed to the decline of unions.[21]

And if the total US gains from trade expansion are enormous—around a trillion dollars in annual income—the costs to trade-displaced workers are not trivial. The same study that found trade-expansion benefits of a trillion dollars a year estimates that US workers displaced by trade in a given year lose a total of $54 billion in lifetime earnings,[22] while programs that explicitly address this loss total less than $2 billion annually.[23] And the broad societal trend has been against funding social programs that redistribute income among the nonelderly. When asked why the overwhelming majority of liberal Democrats had opposed President Clinton's fast-track legislation in 1997, Representative Barney Frank (D-MA) said,

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17. William R. Cline, *Trade and Income Distribution* (Washington, DC: Institute for International Economics, 1997), table 5.1 (264).

18. Cline attributes a change of 29 percent to skill-biased technological change.

19. Richardson, "Global Forces, American Faces: US Economic Globalization at the Grass Roots," 38.

20. *The Decline of US Labor Unions and the Role of Trade* (Washington, DC: Institute for International Economics, 2003), 5. Baldwin finds this trade impact over the 1977–87 period. Overall, "the share of workers who were union members [fell] from 25 percent in 1977 to 14 percent by 1997." For manufacturing, it dropped from 38 to 18 percent (1).

21. On ways that globalization weakens union power, see Rodrik, *Has Globalization Gone Too Far?*, chapter 2.

22. The specific calculation is for 2003. See Bradford, Grieco, and Hufbauer, "The Payoff to America from Global Integration," appendix 2B, 106–09.

23. Ibid., 97.

less than half in jest, that they were "taking a hostage" in response to cuts in social programs.[24]

This tendency has been reinforced by deep partisan polarization in the House of Representatives. Under current political circumstances, most Democrats in that body are likely to be naysayers in any contested trade vote. Organized labor's strong opposition reinforces this position. But legislation normalizing trade with China in 2000 and entering bilateral free trade agreements in 2003 and 2004 won support from a significant number (from 73 to 120) of House Democrats, including senior members of the Ways and Means Committee. Nevertheless, the current style of House leadership—at the committee and chamber level—does not offer these Democrats what they need, substantively or politically, on the most controversial trade legislation.

To sum up, given the decline of traditional protectionism and the substantial (if unevenly distributed) societal gains from globalization, an unvarnished protrade agenda is within reach as never before. Most of the remainder of this chapter will set forth elements of that agenda. But its success requires softening the partisan divide in Congress and buttressing the shaky support among the public. The best path to both of these is a serious, comprehensive program of remediation, reflecting a societal commitment to address the needs of globalization's losers, with actions consistent with that commitment. Only with such a program can—and should—we complete the transition to globalization. What such a commitment implies will be spelled out later in this chapter. But first, let us address some of the basic elements of an open trade policy for the 21st century.

Two Key Preconditions: Macroeconomic Balance and Productivity Improvement

One fundamental prerequisite for sensible trade policy is *macroeconomic balance*. If a nation is consuming more than it is producing, if investment within its borders exceeds saving, it runs a trade deficit by definition. If that deficit is large and growing, it will affect balance of trade politics by increasing the number of producers hurt by imports relative to the number of those helped by exports. Moreover, a huge global trade deficit will inevitably incorporate even more one-sided trade deficits with some major trading partner. In 2004, US merchandise imports of $1.47 trillion were, astonishingly, almost double its merchandise exports of $808 billion.[25] With China, imports of $197 billion were almost six times US exports of $35 billion.

24 Quoted in Jeffrey J. Schott, ed., *Restarting Fast Track* (Washington, DC: Institute for International Economics, Special Report 11, 1998), 24.

25. If one adds trade in services, where the United States runs a modest surplus, total imports come to $1.76 trillion and exports to $1.15 trillion. The narrower merchandise balance

As noted in chapter 9, the rising US trade deficits from 1998 onward generated far less protectionism than did those of the mid-1980s. Nonetheless, they inhibit support for trade liberalization and spawn initiatives like the Schumer-Graham proposal, noted earlier, to impose a 27.5 percent temporary surcharge on imports from China.[26] Such a measure would, of course, violate US trade obligations under the World Trade Organization (WTO).

Thus, a large trade deficit exerts an undeniable impact on trade policy. However, the converse is not generally the case. Action specifically directed toward imports or exports has little effect on the balance between them. Trade measures can affect the volume of trade, and they can influence the composition of trade. But unless coupled with other measures, they will have little impact on the overall surplus or deficit of a nation. The reason is that macroeconomic forces will pull the overall imbalance back toward its level prior to the trade action.[27]

Rather, the appropriate remedies for a trade deficit are macroeconomic actions that increase saving relative to investment and production relative to consumption. For the United States, the most promising course by far is action to reduce the federal budget deficit, because that represents massive dissaving for the American economy. Under conditions of slack domestic demand, there can also be a role for exchange rate policy, meaning direct efforts to influence the value of the dollar.[28]

Within a condition of overall balance, the United States should expect to run surpluses with some trading partners—such as the European Union—and deficits with others—such as Japan and, above all, China. These bilateral imbalances are normal, even beneficial: They are one way that nations

is what is emphasized here because that is what trade politics is still overridingly about, notwithstanding the establishment of the General Agreement on Trade in Services (GATS) in the Uruguay Round agreements. But services are undeniably growing and, more importantly, growing as a share of trade and the US economy. See Mann, "Offshore Outsourcing and the Globalization of US Services," Bergsten et al., *The United States and the World Economy*, chapter 9.

26. The aim was to offset the estimated undervaluation of China's currency, the renminbi, pegged at 8.28 to the dollar since 1994. In the unlikely event it became law, such a surcharge would certainly reduce US imports from China but would likely have at least a partially offsetting effect on US trade balances with other nations. On China's currency, see Nicholas R. Lardy, "China: The Great New Economic Challenge?" in Bergsten et al., *The United States and the World Economy*, 134–37.

27. For example, a higher tariff on imports will reduce the need to convert dollars to foreign currency to purchase them. This will, all else being equal, raise the dollar exchange rate, which in turn will dampen overall exports and increase overall imports.

28. Under these circumstances, a decline in the value of the dollar will increase demand for exports and replace imports with domestic products, thus increasing production relative to consumption (and bringing the economy closer to full capacity). At full capacity, however, the main product of dollar depreciation will be inflation. See I. M. Destler and C. Randall Henning, *Dollar Politics: Exchange Rate Policymaking in the United States* (Washington, DC: Institute for International Economics, 1989), especially 10–11 and 148–49.

maximize the gains from trade. Measures that seek to regulate or eliminate them make no economic sense whatsoever, though it is appropriate to press partner nations running large global surpluses (or deficits) to pursue exchange rate and other macroeconomic policies that bring them into overall international balance.

Macroeconomic policy can help the United States balance its global trade account and thereby reduce pressures on trade policy. It cannot, however, determine the exchange rate at which balance will take place. Nor can it have much impact on another key variable: the rate of productivity growth. By this measure, the US economy has done very well over the past decade, reversing the productivity slowdown of the 1970s and 1980s. The main determinants here lie in the private economy, but *microeconomic* policy measures can improve the quality and profitability of economic activity in the United States. These policies include measures to enhance the quality of the workforce (education and training), strengthen the US economic infrastructure, increase private saving and investment, rationalize regulation of business, and encourage technological innovation and the efficient application of new ideas to the production process. The aim of such measures is to make the economy both more productive and more flexible. The result, if successful, is greater gains from trade and a higher living standard for Americans.

Trade policy is not an effective instrument for addressing these broad, economywide problems of international balance and domestic productivity growth. It can have two very important goals, however. Its "positive" goal is to help increase the volume of trade—and hence the gains from trade—by opening markets abroad and at home. As noted earlier, these gains to date appear to have been enormous—on the order of a trillion dollars a year in increased national output resulting from overall global integration. Its "negative" goal is damage limitation—that is, minimizing the harm to the overall US economy, and to the international trading system, from successful attempts by special interests to win import protection. In practice, the two goals are related. Damage limitation requires mobilization of counterpressure to offset the concentrated interests hurt by trade. And one of the best means of creating such counterpressure is through negotiations aimed at increasing export opportunities, because these bring the export interests that gain from trade expansion more actively into the political fray.

But if, over the past decade, concentrated interests hurt by trade have declined in political influence, this rationale for ongoing negotiations becomes less potent. The bicycle metaphor described in chapter 2—that the trade system needs to continually move forward (liberalize) or else it will fall (into new import restrictions)—may no longer be as apt. With the globalization of business, today's trade policy regime may have sufficient support to remain standing without steady forward movement. Instead, the argument for further trade liberalization must rest mainly on the additional welfare gains it will bring. These include, of course, gains for peoples around the world, particularly those in poor nations, and the gains in global stability that enhanced economic interdependence can bring. But the main argument, in US politics, must be the gains it brings to Americans.

The gains could be substantial. Bradford, Grieco, and Hufbauer, applying several methodologies, reach a "conservative" conclusion that "removing all remaining [global] barriers to trade would increase US production by approximately $450 billion to $600 billion annually."[29] Unlike their estimate of past gains of roughly $1 trillion, this comes from trade policy change alone. Any induced technological change or other effects would be icing on the cake.

Completing the Transition to Globalization

What would be required to bring this about? Essentially, the United States would have to remove its remaining barriers and induce other nations to do likewise. And the primary vehicle for achieving this objective remains global trade negotiations under the WTO. Bilateral trade deals bring some economic and geopolitical gains. They are useful in buttressing the leadership of the USTR in periods when global talks are flagging, like the early 2000s, and they can sometimes generate constructive pressure on broader negotiations via "competitive liberalization," But the real pay dirt is in the WTO's Doha Round (and succeeding negotiations, if Doha does not achieve its lofty goals).

USTR Robert Zoellick worked diligently and successfully to rescue the Doha talks at Geneva in July 2004 following the collapse at Cancún the previous September. He helped open the way not only to serious concessions on agriculture but also to the possibility of broader liberalization on goods and services. But much more work needs to be done if the round is to fulfill its promise and conclude successfully in 2006. Such a broad, globally liberalizing outcome would bring major new US gains from trade, not to mention the help it could provide the developing world.

For the United States, this will require reduction—and eventually removal—of entrenched barriers to imports. American trade barriers and distortions, taken as a whole, are relatively modest: the simple average tariff applied by the United States is 3.9 percent, comparable to the European Union (4.4 percent) and Japan (3.3 percent), but far below that of India (31.4 percent), Brazil (14.6 percent), China (12.4 percent), and Korea (12.4 percent).[30] As of 1 January 2005, the United States removed its textile quota

29. "Gains in this range," they add, "would increase US per capita income between $1,500 and $2,000 annually and US household income between $4,000 and $5,300 annually." See Bradford, Grieco, and Hufbauer, "The Payoff to America from Global Integration," 95.

30. World Trade Organization, *World Trade Report 2003* (Geneva: World Trade Organization), appendix table IIB.4, Most Favored Nation Applied Tariffs for All Products, 208–10.

restrictions as part of the phaseout of the Multi-Fiber Arrangement agreed to in the Uruguay Round—though some restrictions, especially vis-à-vis China, are being maintained for a transitional period. But tariffs on textile and apparel products remain relatively high, as do measures limiting imports and subsidizing exports on products such as sugar, cotton, dairy products, and orange juice.

USTR has made sweeping Doha Round offers to eliminate tariffs on industrial products and liberalize agricultural trade.[31] But real negotiations to date have involved more modest measures. This is due in part to the reluctance of other nations to reciprocate, including the European Union (agriculture) and advanced developing nations (import barriers in general). Still, the United States, for its part, has sent mixed messages. It seemed to back off its ambitious agricultural proposal in September 2003 when it joined with the European Union in putting a more modest initiative before the Cancún Ministerial Conference. Refusal to grant Australia *any* increased access to the US sugar market in the free trade agreement concluded with that nation in 2004 sent a very negative signal to Brazil and other countries seeking access to US agricultural markets at Doha, and in negotiations for an FTAA.

In the meantime, the United States has been under international attack for its enforcement of trade remedy laws, losing a number of WTO cases. Canada has successfully challenged US countervailing duties on softwood lumber. Japan and Korea have won cases against US enforcement of antidumping law. And no fewer than 11 nations (including the European Union) won a finding that the Byrd amendment (which channels the proceeds of antidumping duties into the coffers of the petitioning firms) violated US commitments in the Uruguay Round. More recently, on the agricultural front, Brazil won a WTO decision against US subsidies on the production of cotton, which is a particularly sensitive issue as well with sub-Saharan African producers.

The appropriate US response on cotton is to comply by cutting subsidies and decoupling them from production—as promised in the Doha negotiations.[32] Agricultural trade has become the linchpin for broader success in the talks, and both the advanced and the poorest developing countries have made it clear they will not approve an overall deal with-

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31. For the 26 November 2002 proposal on industrial tariffs and the 25 July 2002 agricultural proposal, see www.ustr.gov/Document_Library/Press_Releases/2002/November/U.S._Proposes_Tariff-Free_World,_WTO_Proposal_Would_Eliminate_Tariffs_on_Industrial_Consumer_Goods_by_2015.html (accessed 6 April 2005) and www.ustr.gov/Document_Library/Press_Releases/2002/July/Administration_Unveils_Comprehensive_U.S._Trade_Proposal_to_Exp_American_Farmers'_Access_To_Overseas_Markets.html.

32. This could end up requiring the politically difficult step of compensating landowners, to some degree, for resulting declines in land value.

out substantial opening of rich-country farm markets. This opportunity should be exploited.

On the trade remedy front, the US response to losses in WTO dispute settlement has been piecemeal and minimalist: complying with specific WTO rulings where it was feasible but resisting broader concessions. This is understandable, since congressional resistance to changes in these laws is particularly stiff. A trade policy aimed at thorough liberalization would be much more ambitious, however, using these international rulings as a rationale for liberalizing proposals at Geneva and legislative changes at home. On antidumping and countervailing duty laws, the United States should take steps to make procedures better balanced between foreign and domestic producers of the products at issue, and between US producers and importers of the products. This should be part of a broader reshaping of the statutes governing administrative trade relief. Before the 1970s, it was too hard for firms to get action under these statutes; now it is too easy. The result is too much protection and too many cases diverted from consideration under the escape clause to the laws that highlight alleged foreign "unfairness" (see chapter 6).

Moreover, these laws are written as if the only domestic interests of concern are US-based producers of the specific products whose trade is at issue. But the real world has long since departed from this model. A firm's capacity to export may rest upon its capacity to import—as Caterpillar has argued in resisting restraints on steel imports. Yet US dumping laws ask only whether products priced below an arbitrarily set "fair value" hurt competing US producers (who do not have to follow the same pricing rules). They do not ask whether imposition of a duty will damage US firms that use the imported products as inputs—perhaps even forcing them to move operations overseas.

Current US practice also provokes foreign emulation, as the European Union and other trading partners impose mirror-image penalties on US producers. Finally, easy access to antidumping relief undercuts what is supposed to be the primary channel for import relief and adjustment: the "escape clause" (Section 201). For if dumping findings are quasi-automatic, why should a company seek action under a statute with a more demanding injury standard, a time limit for any protection, and a presidential right to deny relief even if statutory criteria are met?

The best solution would be an international agreement on competition policy, with rules on predatory pricing that apply equally to both foreign and domestically produced goods.[33] But absent such an agreement, the United States should adopt the following reforms as a package:

33. However, one should not assume that if antidumping law were placed in the competition policy framework, that framework would go unchanged. See I. M. Destler, "U.S. Approach to International Competition Policy," in Robert Z. Lawrence, ed., *Brookings Trade Policy Forum 1998* (Washington, DC: Brookings Institution), 395–418.

- Ease the threshold for proving injury under the escape clause (Section 201) and limit administration discretion, but tie relief to an explicit adjustment commitment by the petitioner;
- Toughen the threshold for proving dumping, returning to the original standard of comparing selling prices in the United States to selling prices in the producer's home market; and
- In dumping or countervailing duty cases in which dumping or subsidy and injury are found, create a follow-on procedure whereby users and other affected interests can seek a reduction in the assessed penalty duty by demonstrating that its full imposition would cause them serious economic harm.

Changes in Structure and Process

US trade policy would also benefit from changes in the structure of the executive branch and reinforcement of the processes for interbranch cooperation on trade. The Omnibus Trade and Competitiveness Act of 1988 moved to strengthen this system by buttressing the authority of the Office of the US Trade Representative. Congressional approval of landmark agreements in 1993 and 1994, along with the trade promotion authority (TPA, also know as "fast track") legislation of 2002, give testimony to the fact that the system continues to work. Still, it could be further strengthened by moderate reforms at both ends of Pennsylvania Avenue.

The reason to consider trade reorganization is *not* the fact that many federal agencies have fingers in the trade pie. This simply reflects the range of governmental concerns that trade policy affects. In any conceivable organizational arrangement, the United States would continue to have the State Department and the National Security Council stressing trade's importance to alliance relations, the Defense Department worrying about the defense industrial base, the Treasury Department and the Council of Economic Advisers responsible for linking trade policy to the overall domestic economy and global development, and the Department of Agriculture stressing the connection of grain exports to commodity programs and overall farm welfare.

All government activities that have a "trade" label do not require a common home. As a day-to-day matter, for example, export promotion through technical aid to firms need not be housed in the same agency that handles import regulation or trade negotiations. But if substantial dispersion of US governmental trade responsibility is inevitable, the current bifurcation of central trade responsibility is not. In fact, the current executive branch organization has at least four serious flaws:

- The USTR-Commerce division of labor invites conflict by assigning "policy," "coordination," and "negotiations" to the USTR and "nonagricultural operational trade responsibilities" to the Secretary of Commerce.

- This is exacerbated by the fact that international trade is the only subject in the Commerce secretary's portfolio that offers an opportunity for important policy leadership. Thus, any ambitious incumbent with decent White House connections becomes a rival of the USTR.[34]
- The numerical expansion of the Office of the USTR beginning in 1980 created an organizational hybrid, too large for a flexible coordinating-negotiating staff but too small to be the central executive branch repository of line expertise and responsibility. And the USTR's size makes it a target of White House reorganizers seeking to trim overall staff.
- Presidential support for the USTR, particularly important at times of trade policy crisis or major negotiations, has often been tenuous.

This situation has intermittently led legislators, such as former Senator William V. Roth, Jr. (R-DE), to propose replacing this "two-headed monster"[35] with a Department of Trade. In earlier editions of this book, this author expressed concern that a trade secretary would be "distant from the president" and "overly responsive to the protection-seeking complainers" in the business community. This led to a somewhat complicated counterproposal built on USTR and on moving Commerce's trade responsibilities under USTR's authority.[36]

Times have changed. Business community concerns over trade no longer have such a protectionist tilt. And the USTR office has become less an administrationwide policy broker and more like a trade department. The National Economic Council established under President Clinton has taken over, at least formally, the overall policy coordination function. Moreover, USTR's connection with the president has, in general, eroded, as illustrated by the shakiness of the incumbent's Cabinet-level status under President George W. Bush.[37]

On balance, therefore, a Department of Trade now seems a sensible solution. It would place trade leadership under a Cabinet member heading

34. This proved a serious problem in the Nixon and Reagan administrations. It could have become a problem in both Bush administrations, since in each case the president was closer personally to the Commerce secretary than to the USTR.

35. Roth is quoted in US Congress, *Trade Reorganization Act of 1983*, 2.

36. This option is spelled out in the previous (3rd) edition of this book, *American Trade Politics* (Washington, DC: Institute for International Economics, 1995), 300–01. Briefly, it involved transforming USTR into a small, elite presidential staff and moving the remaining USTR and Commerce trade officials and offices to a "United States Trade Administration" reporting to the USTR.

37. Prior to the appointments of both Robert Zoellick in 2001 and Rob Portman in 2005, Bush advisers indicated a desire to reduce the status of the position. Pressure from Congress and the business community kept this from happening, but the fact that it was known to be considered could only undercut USTR's credibility.

a familiar organizational structure. If accompanied, as it should be, by elimination of the Department of Commerce, it would remove the built-in structural conflict at the Cabinet level.[38]

If the president were to recommend and the Congress were to legislate such a reorganization, they should also consider instituting modest changes in the TPA process. The basics remain appropriate—the executive branch gets authority to negotiate and the promise of expeditious congressional action on the results, in exchange for close consultation with legislators and advisory groups throughout the negotiations.

The procedure was originally established for a limited time period for one specific negotiation—the Tokyo Round of 1973–79. Subsequent extensions have likewise been limited in time but have broadened in scope—to cover global deals, but also regional and bilateral free trade agreements. This has created two problems. One is that the authority can lapse for long periods, as in 1995–2002, weakening the US negotiating hand. The second is that it can be employed for agreements not contemplated when the extension was enacted (no one expected a NAFTA when fast track was renewed in 1988). This arguably gives the executive too much leeway.

An appropriate and balanced remedy would be for Congress to make TPA permanent but require prior legislative approval (either specifically or by category) for its application to negotiation of a particular trade agreement. It would also be desirable to enact into law the essence of the "nonmarkup" process, through which the trade committees, acting generally on a bipartisan basis, have made detailed recommendations (often amounting to full draft legislation) on what should be included in the nonamendable implementing bills submitted by the president. This could include a minimum time period (say 90 days) for this process.[39]

These substantive and process changes would do much to help the United States complete the transition to globalization. But their practicality remains in question. How can today's Congress, bitterly divided by party and barely able to enact trade-negotiating authority, support such ambitious objectives? How can today's public, ambivalent about trade and globalization, only a quarter of which wants government to actively

38. The nontrade staff in Commerce is mainly housed in a set of autonomous technical offices—the National Oceanic and Atmospheric Administration, Bureau of the Census, National Institute of Standards and Technology, and Patent and Trademark Office are the largest. These could exist as freestanding federal agencies.

39. For more detail on this idea, see I. M. Destler, *Renewing Fast-Track Legislation*, Policy Analyses in International Economics 50 (Washington, DC: Institute for International Economics, 1997), 41–43. A related change, suggested in the previous edition of this volume, would be to shorten the time period for committee consideration of the bill once submitted, since no changes are then permitted. This would reduce the threat from delaying tactics near the end of a Congress, such as those employed in 1994.

pursue further liberalization, be expected to support such an ambitious policy agenda?

It is hard to avoid negative answers—if the program is simply trade liberalization. But if leaders think more broadly and inclusively, there is a potential path forward. It is a path that may well not be taken in the fiscal and political climate of 2005. But before too many years, its logic may prove irresistible. It is a path both substantive and political. It consists of moving cautiously forward on the social issues that have exacerbated partisan differences over trade and moving aggressively to build what J. David Richardson has labeled "a new civic infrastructure" to spread the gains from globalization.[40]

What Americans Want in Trade Policy

In Washington, the most divisive trade policy issue since the 1990s has been the pursuit of labor and environmental objectives in trade negotiations. As depicted in chapter 10, this issue blocked agreement on fast-track authority under President Clinton, and it narrowed support majorities under his successor.

Yet the public is not divided on this matter at all. In survey after survey, Americans overwhelmingly support inclusion of minimum labor standards and minimum environmental standards in trade agreements, with over 90 percent typically approving.[41]

This does not, of course, make such standards easy to negotiate internationally. They are widely regarded in the developing world as stalking horses for protection, and have been largely excluded from the Doha Round. At home, many Republican lawmakers view them as anathema and fear in particular that trading partners could use them to influence labor and environmental regulations in the United States. Yet some compromise has proved possible, as in the 2002 TPA legislation and in bilateral free trade agreements. More might have been achieved had House Republicans taken up Representative Charles Rangel's offer to negotiate these issues in 2001 (see appendix A).

In a globalizing world, trade competition can affect a nation's capacity to maintain such standards in the absence of international cooperation. So it is reasonable to seek international action. Such action cannot be

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40. See Richardson, "Global Forces, American Faces," 49.

41. The Chicago Council on Foreign Relations (CCFR) survey of June 2004 found that 94 percent of Democrats—and 93 percent of Republicans—favored incorporating minimum labor standards in US trade agreements. For environmental standards, support was 94 percent among Democrats and 91 percent among Republicans. The CCFR's survey of leaders found similar support among Democrats, but "just" 69 and 67 percent, respectively, for Republicans. See Chicago Council on Foreign Relations, *Global Views 2004: American Public Opinion and Foreign Policy.*

achieved overnight: The issues are not ripe for comprehensive international agreement. But serious international engagement on these issues, through trade and nontrade negotiating channels, would give moderate environmentalists and labor supporters a stake in the process. It would also give them a rationale for voting "aye." Hence, it could well increase support for trade liberalization among that substantial minority of House Democrats who remain conflicted on the issue. Such support could, in turn, provide a sufficient political margin to enable the USTR to confront remaining entrenched protectionist groups like sugar producers.

In the near term, however, these issues are mainly symbolic, in the sense that no plausible agreements on other nations' labor and environmental standards would provide much concrete benefit to the Americans who are currently globalization's losers. Helping them requires action here at home in the form of a range of mutually reinforcing measures to make Americans fit to be globalization participants and beneficiaries.

Completing the Transition to Globalization at Home

The explosion of international trade has been an enormous boon to Americans in general, but not to all Americans in particular. The same study that estimates annual US income gains at $1 trillion calculates that the lifetime wage losses to trade-displaced workers in a given year are around $54 billion.[42] In theory, they could be made whole by reallocating one-twentieth of the trade gains. Yet even with the reforms enacted in 2002, total annual federal spending specifically devoted to trade-displaced workers comes to just $2 billion.

In principle, there is public support for more. As noted in chapter 11, the Chicago Council on Foreign Relations poll of 2002 found 73 percent support for "free trade" if government help was available for workers who were hurt. (Sixteen percent supported free trade without such programs, and 9 percent opposed free trade.) Responses in 2004 were less positive, but they still indicated opposition to free trade limited to one-third, assuming such government aid was available. Another recent survey finds that the public believes that aid is *not* sufficiently available: 63 percent believe retraining support is "inadequate."[43] And in fact, aid for trade-displaced workers has received lukewarm support where it most matters—from the Department of Labor, which administers the programs, and from the union movement, which has regarded the programs as a second-best alternative to limits on import growth.

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42. Bradford, Grieco, and Hufbauer, "The Payoff to America from Global Integration," appendix 2B (106–09).

43. Kull et al., *Americans on Globalization, Trade, and Farm Subsidies*.

The 2002 reforms in trade adjustment assistance (TAA) responded to this concern. They were pressed by Democratic Senators Jeff Bingaman of New Mexico and Max Baucus of Montana and embraced by then Majority Leader Tom Daschle as the price for broad Democratic support of TPA in the Senate. Authorized funding for the program was roughly tripled. The pool of eligible workers was expanded—to those whose plants sold inputs to manufacturers hurt by imports and to some of those hurt by shifts of production to other countries. A health insurance benefit was added, with government paying 65 percent of the cost. A new wage insurance program was established, allowing workers over 50 (as an alternative to regular TAA) to recoup up to half of the wage difference between their old and new jobs, for up to two years. There were also increases in job search and relocation assistance and in the overall time period over which workers can receive training and income support.[44]

Yet the results have been disappointing. Worker participation has remained low—about 48,000 workers in 2003, for example, out of about 200,000 certified as eligible. Training responsibility is delegated to state government agencies, which often use up their TAA money well before the end of the fiscal year. Very few workers eligible for TAA actually received the health insurance benefit in the first eight months it was available. Over that same period, just 42 workers enrolled in the wage insurance program![45]

Participation will surely expand with time, and program advocates have formed a new Trade Adjustment Assistance Coalition to speed this process.[46] Just as surely, the TAA program will prove inadequate to the need. One reason is limitations in its mechanisms: Government-managed retraining courses have a mixed track record at best. A larger reason is that labor displacement directly attributable to trade is hard to isolate from the much larger overall job losses generated by economic and technological change.

On balance, moreover, it is a mistake to try. For in welfare terms, the distinction is arbitrary. A displaced worker whose plant moves, downsizes, or restructures because of domestic competition or technological change suffers essentially the same losses as one whose plight can be

44. This and subsequent paragraphs draw substantially on Lori G. Kletzer and Howard Rosen, "Easing the Adjustment Burden on US Workers," in C. Fred Bergsten et al., *The United States and the World Economy*, chapter 10. Rosen, as staff aide and policy entrepreneur, played a key role in enactment of the 2002 reforms.

45. According to Kletzer and Rosen (ibid., 327), this was due to an arbitrary requirement inserted in the statute providing that petitioning firms or groups of workers must indicate interest in this program when they first apply for trade adjustment assistance, even though nothing in the process informed them of its existence.

46. See www.TAACoalition.com (accessed 6 April 2005). Senators Max Baucus (D-MO) and Norman Coleman (R-MN) are cochairs. Howard Rosen is executive director.

attributed to imports. If help for trade-impacted workers is appropriate, why not help for all who are displaced from their jobs? They are equally victims of a rapidly changing American economy.

Moreover, the political gains from a separate trade adjustment assistance program have clearly diminished. The 2002 reforms built Democratic support in the Senate, but (judging by the final tally) won exactly four converts to TPA out of 210 Democrats in the House of Representatives. For many, TAA is viewed as a backwater government program that gets attention only when an administration needs votes for trade legislation. This may be changing somewhat—several members of Congress have associated themselves with the new monitoring organization. But they are mainly legislators who support trade expansion to begin with. Liberal Democrats who have been voting "nay" are more concerned with the broader erosion of the social safety net and the rise of economic insecurity among the less well-off generally.

For such Democrats, the vision of a much stronger program for displaced workers should have real appeal. It would address the broad distributional costs of the market economy—as their party has sought to do since the Great Depression. It would, at the same time, leave that market economy free to flourish.[47]

A New Social Compact

Such a program could be built, in part, on the trade-specific programs of the 2002 act, and on the long-standing unemployment insurance program. Extended unemployment insurance benefits and worker retraining now available under TAA could be available to all workers with similar plights. Wage insurance could be broadened as an alternative, with removal of the arbitrary age requirement and counterproductive procedural hurdles that limit participation. The health insurance benefit could be made available to all displaced workers and easier to obtain. Job search aid could be similarly expanded.

But reform should not be limited by the TAA model. As J. David Richardson has suggested, the United States needs "creative innovation in *domestic* policies designed to empower large numbers of Americans . . . to prosper from global opportunity and technological dynamism."[48] This should include not just government retraining but incentives for firms to

47. According to Kletzer and Rosen, "Relative to five other major industrialized countries, the United States spends the least on active labor-market adjustment programs. . . . France and Germany each devote [relative to GDP and the unemployment rate] about five times more to their active labor-market programs than does the United States." See "Easing the Adjustment Burden on US Workers," 315.

48. See Richardson, "Global Forces, American Faces," 49.

provide on-the-job training, and for workers to seek out relevant educational, skill enhancement opportunities.[49] Labor unions should be brought into the process, so they can help their current and potential members cope with change rather than railing against it.[50]

Such a program would not be free. Kletzer and Rosen estimate that the cost of extending current trade adjustment assistance benefits to all displaced workers would be $12.1 billion.[51] Lael Brainard and Robert G. Litan calculate the costs of a general two-year wage insurance program at $3.6 to $7.52 billion a year.[52] If one added on new business tax incentives, such as the "human capital investment tax credit" proposed by Catherine L. Mann,[53] one could easily reach an annual budgetary price tag of $20 billion.

Within the broad globalization and fiscal context, this does not seem excessive. If Americans gain $1 trillion a year from international openness and stand to gain half a trillion more from further liberalization, if the current lifetime costs to workers displaced in a given year come to around $50 billion, and if total federal spending is projected at $2.57 trillion for fiscal year 2006, then a $20 billion program cost is modest: about 2 percent of annual globalization gains, and under 1 percent of annual government spending.

Trade advocates should embrace such a program. A broad social compact reaching all losers from economic change is a necessary and appropriate foundation for a policy that seeks full international openness in the 21st century. Extending adjustment aid beyond those specifically hurt by trade is a reflection of economic reality—as interdependence deepens, it becomes harder and harder to isolate the cause of specific economic misfortunes, and less and less reasonable to try. It is also the most plausible route to broadening public support for trade expansion, and for bridging the partisan divide.

Two short-run barriers loom large, however. First is the atmosphere of extreme budget stringency brought on by record budget deficits and President Bush's determination to maintain his huge tax cuts. This makes

49. The agenda could also address other sources of workplace insecurity, by providing pension stability, flexible schedule/day care/leave, raising the minimum wage, and enhancing the earned income tax credit. The focus here, however, will be mainly on maximizing the number of Americans who can compete successfully in the globalization job market.

50. Ideally, this program would be pursued as part of a "grand bargain" with organized labor, as suggested by C. Fred Bergsten, in which the major unions would withdraw or mute their opposition to further trade liberalization. But it should be pursued in any case.

51. "Easing the Adjustment Burden on US Workers," 333.

52. Brainard, Litan, and Nicholas Warren, "A Fairer Deal for America's Workers in a New Era of offshoring," in Lael Brainard and Susan M. Collins, eds., *Brookings Trade Forum*, 2005 (forthcoming).

53. See Mann, "Offshore Outsourcing and the Globalization of US Services," 306–7.

nondefense and non–Homeland Security programs the prime targets for spending restraint. The second is the continuing fractious atmosphere in the House of Representatives. The comprehensive program advocated here might be attractive to protrade Republicans—*if* they were seeking to maximize support from Democrats. But the 2001 experience on trade, and the process since then on all contentious issues, suggests that the dominant strategy of the current House leadership is to build consensus within their own party and then use their modest 30-vote majority to press legislation through. Minority votes are welcome, of course. But the procedure does not welcome minority participation in the consensus-building process, much less substantive adjustments to broaden minority support.

The barriers to building a comprehensive domestic infrastructure for globalization are daunting. And so are those to full global trade liberalization. Robert Rubin has cited former President Bill Clinton's observation that trade liberalization "needed to be inextricably combined with a parallel agenda of domestic programs," but that, "too often, those who support trade oppose the domestic agenda, and those who support the domestic agenda oppose trade. . . . [T]he right answer was to combine the two, but bringing together those two conflicting groups makes for difficult politics."[54]

Yet advocates should not despair. Changes in American trade politics make this dual agenda plausible for the first time in American history. The positive but mixed impacts of globalization make it necessary.

54. Address at the Institute for International Economics, 15 February 2005.