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59. Trade

Congress should

- recognize that the relative openness of American markets is an important source of our economic vitality and that remaining trade barriers are a drag on growth and prosperity;
- take unilateral action to repeal remaining protectionist policies and reform the regressive tariff regime;
- reform U.S. antidumping law to limit abuses and conform with U.S. obligations within the World Trade Organization;
- enact implementing legislation for market-opening trade agreements and restore trade promotion authority to the executive branch;
- ensure that the costs of physically moving goods into, out of, and around the United States are not unduly burdensome;
- maintain support for the WTO as a body for negotiating market-opening agreements and settling disputes;
- reform customs and administrative procedures to make them transparent, predictable, and frictionless; and
- avoid using trade deficits and concerns about employment levels as excuses for imposing trade restrictions.

The Gains from Trade

Voluntary economic exchange is inherently fair and does not justify government intervention. Further, government intervention in voluntary economic exchange on behalf of some citizens at the expense of others is inherently unfair.

Beyond the moral case for free trade is the well-established fact that when people are free to buy from, sell to, and invest with one another as they choose, they can achieve far more than when governments attempt to control economic decisions. Widening the circle of people with whom we transact—including across political borders—brings benefits to consumers in the form of lower prices, greater variety, and better quality, and it allows companies to reap the benefits of innovation, specialization, and economies of scale that larger markets bring. Free markets are essential to prosperity, and expanding free markets as much as possible enhances that prosperity.

When goods, services, and capital flow freely across U.S. borders, Americans can take full advantage of the opportunities of the international marketplace. They can buy the best or least expensive goods and services the world has to offer; they can sell to the most promising markets; they can choose among the best investment opportunities; and they can tap into the worldwide pool of capital. Study after study has shown that countries that are more open to the global economy grow faster and achieve higher incomes than those that are relatively closed.

From an economic perspective, then, the case for unilateral trade liberalization—reducing our own trade barriers and subsidies without preconditions or reciprocal commitments from other countries—is sound. Politically, however, the concentrated and organized beneficiaries of protectionism are powerful relative to the much larger, but diffuse and disorganized, beneficiaries of free trade. Politicians tend to be most responsive to the loudest interest groups and are therefore inclined to view imports unfavorably. Thus, the reduction of import barriers is considered ''costly,'' and therefore must be compensated by the benefits of increased export market access.

This view that exports are good and imports are bad is a central misconception upon which rests the belief that trade negotiations and reciprocity are essential to trade liberalization. Under this formulation, an optimal trade agreement, from the perspective of U.S. negotiators, is one that maximizes U.S. access to foreign markets and minimizes foreign access to U.S. markets. An agreement requiring large cuts to U.S. tariffs, which would thus deliver significant benefits to consumers, would not pass political muster unless it could be demonstrated that even larger export benefits were to be had. This misguided premise that imports are the cost of exports and should be minimized lies at the root of public skepticism about trade.

Most of America's remaining tariffs are particularly taxing on lower-income citizens. Although U.S. tariffs are on average relatively low, they are particularly high on products like shoes, clothing, and food—necessities on which lower-income Americans spend a higher proportion of their incomes and that are produced disproportionately by workers and farmers in poorer countries. A 2007 book by Edward Gresser of the Progressive Policy Institute points out that hotel maids who earn $15,000 per year probably pay the equivalent of a week's pay in tariffs annually, whereas hotel managers, because of the goods they buy as well as their higher incomes, probably lose only a few hours' pay in tariffs each year. The benefits of free trade—lower prices, greater choice, and better quality goods—are precisely what every lawmaker interested in improving the lives of America's less fortunate should welcome.

Top 10 Most Costly U.S. Trade Barriers

The 10 costliest U.S. quota, tariff, and licensing barriers belong to imported

- Textiles and apparel
- Sugar
- Dairy
- Footwear and leather products
- Ethyl alcohol
- Beef
- Tuna
- Glass and glass products
- Tobacco

SOURCE: International Trade Commission.

In an increasingly globalized world, the notion that a company has an exclusive nationality is outmoded. Cross-country investment holdings, integrated supply chains that seek to capitalize on the global division of labor, intraindustry trade, and just-in-time production techniques highlight the interdependence of firms located in different countries, and favor firms that can respond nimbly to the new conditions. Congress can help American firms and consumers take maximum advantage of those conditions and create an environment that encourages job creation and economic growth.

Openness to trade and investment—on paper and in reality—will be a crucial determinant of whether countries prosper in the global economy. Although it is in a country's interest to achieve this state of openness without regard to what other countries do, reciprocal trade agreements can help move countries toward that objective, while providing mechanisms to discourage protectionist backsliding. In that regard, bilateral and regional trade agreements can open markets at home and abroad to more import competition, encourage cross-border integration of industries, and reward economic and political reform in other countries. Although less economically important than a comprehensive multilateral agreement, regional and bilateral deals can mark important steps toward the goal of global free trade.

On a larger scale, the multilateral trading system under the auspices of the World Trade Organization provides a useful forum for expanding trade and preventing protectionist backsliding. The concept of ''Most Favored Nation''—a cornerstone of the WTO from the beginning—also ensures that trade diversion (a process whereby exclusive preferential trade deals discourage trade with the most efficient producer) is minimized. The WTO's trade policy review and dispute settlement mechanism have helped defuse potential trade wars. Although the WTO and the concept of multilateral trade rules have been crucial to the liberalization of trade, and are worthy of continued support, they are by no means necessary to secure the gains from free and open trade.

U.S. Trade Policy in Limbo

As the 111th Congress convenes, U.S. trade policy is at a crossroads. The post–World War II, bipartisan, pro-trade consensus, which had been showing signs of fray and fissure during the past decade, appears to have collapsed entirely during the 110th Congress. A continuous stream of anti-trade rhetoric, an American public in fear of international trade and globalization, completed trade agreements left in limbo, and the introduction of dozens of antagonistic trade bills are among the dubious achievements of the 110th Congress.

Unless the current Congress takes real steps to rebuild the consensus that has been crucial to U.S. economic vitality and rising living standards for six decades, history likely will view this period as a trade policy watershed for reasons the country will regret.

During the first session of the 110th Congress, ''fast-track'' negotiating authority or ''trade promotion authority'' expired and serious efforts to extend or renew that historically crucial tool of trade diplomacy never materialized. Trade promotion authority enables the executive branch to negotiate agreements with other countries, subject to congressional parameters, and then present those completed agreements to Congress for an up-or-down vote without amendments. Without trade promotion authority, the United States is unlikely to negotiate any substantive new trade agreements.

The Doha Round of multilateral trade negotiations, launched in 2001 under the auspices of the World Trade Organization, was dealt a potentially fatal blow when ministers failed, once again, to reach accord in Geneva in July 2008. There is plenty of blame to be shared among nations for this failure, but the United States was a prominent obstacle on several fronts.

Despite the fact that rich-country farm subsidies have been a central focus of reform throughout the Doha Round, Congress recently passed (over a presidential veto) the Farm Bill of 2008 (formally The Food Conservation and Energy Act of 2008), which commits U.S. taxpayers to continued, trade-distorting subsidization of the U.S. agricultural sector for the next five years—hardly a demonstration of commitment to the kind of reform a Doha Round agreement would require.

Congress also tied the hands of the U.S. Trade Representative where reform of the trade remedy laws is concerned. Although nearly every WTO member favors substantive reform of the agreements disciplining the use of domestic antidumping and countervailing duty laws, the United States stands virtually alone, defending use of calculation practices and determination methodologies that are slanted in favor of the imposition of duties and in some cases run afoul of WTO dispute settlement outcomes.

In addition to U.S. intransigence on the subjects of agricultural and trade remedies reform, the absence of trade promotion authority is among the reasons for the Doha Round's failure. Without trade promotion authority, the prospects of a concluded agreement's making it through the U.S. legislative process without Congress tinkering with the deal's carefully balanced provisions were and will continue to be perceived as unlikely. Essentially, without trade promotion authority, U.S. negotiators lack the credibility to deliver a truly liberalizing agreement.

In an even worse blow to U.S. credibility, some agreements concluded pursuant to the terms of trade promotion authority were not granted an up-or-down vote by the 110th Congress. Instead, Congress forced the Bush administration to reopen four completed agreements (with Peru, Colombia, Panama, and South Korea) to include enforceable labor and environmental provisions as conditions for congressional consideration of those deals (even though such provisions were not required in the trade promotion authority language under which the agreements were negotiated). Nevertheless, the administration capitulated to Congress's demands in May 2007 and convinced our trade partners to reopen the agreements to insert labor and environmental provisions. Yet Congress only made good on its commitment to consider the Peru agreement, while a series of new objections were raised to block consideration of the deals with Colombia, Panama, and South Korea.

The actions of the 110th Congress reflect a shift in attitudes toward trade. Beyond the refusal to consider completed trade agreements, members introduced a few dozen bills objectively characterized as skeptical of, if not hostile to, trade and U.S. trade partners.

It is difficult to avoid the conclusion that the post–World War II preference for engagement, negotiation, and cooperation between the United States and other nations on trade yielded to a burgeoning desire for isolation, litigation, and enforcement during the 110th Congress. That is a particularly troubling development considering that the justification for this change in attitude rests on a series of assumptions that have no basis in fact.

Persistent Myths and Misperceptions about Trade

Congress often cites the rising antipathy of Americans toward international trade as justification for its strident rhetoric and provocative legislation. The results of several different research surveys all seem to support the conclusion that Americans harbor growing fears about trade and globalization. For example, more Americans believed that free trade leads to job losses, lower wages, higher prices, and a slowing economy in 2008 than was the case in 2006.

It is remarkable that trade and, more broadly, U.S. engagement in the global economy have been so badly maligned in the early 21st century. After all, increasing international trade and investment over the past several decades have been crucial catalysts for the enormous wealth creation and robust economic growth experienced in the United States.

Considering the stellar U.S. economic performance of the last quarter century, a period during which U.S. international commercial engagement (as measured by trade as a share of gross domestic product) nearly doubled, those survey results seem counterintuitive, to say the least.

Most Americans have benefited from sustained U.S. economic growth. Most Americans enjoy the fruits of international trade and globalization every day: driving to work in vehicles with at least some foreign content; talking on foreign-made mobile telephones; having extra disposable income because retailers like Wal-Mart, Best Buy, and Home Depot can pass on cost savings made possible by their own access to a plethora of foreign producers; making lower monthly mortgage payments owing to the availability of foreign capital in the mortgage market; depositing bigger paychecks because of their employers' growing sales to customers in India and Brazil; and enjoying health or vacation benefits provided by an employer that happens to be a foreign-owned company.

It is simply implausible that the degree of antipathy toward trade reflected in survey results is driven by personal experiences or realistic fears about the future. The overwhelming majority of Americans have not lost jobs to import competition or outsourcing, nor do they know someone who has. According to the Bureau of Labor Statistics, about 2 to 3 percent of U.S. job loss is attributable to import competition or outsourcing.

So this all raises a crucial question: Why are Americans harboring unfavorable views about trade? It might have something to do with the fact that Americans are routinely barraged with reports from the media, from the campaign trail, and from Congress that trade is a scourge that threatens their jobs and the economy. These tales usually rely on one or more of three prominent myths.

Myth: Manufacturing Is in Decline . . . and Trade Is to Blame

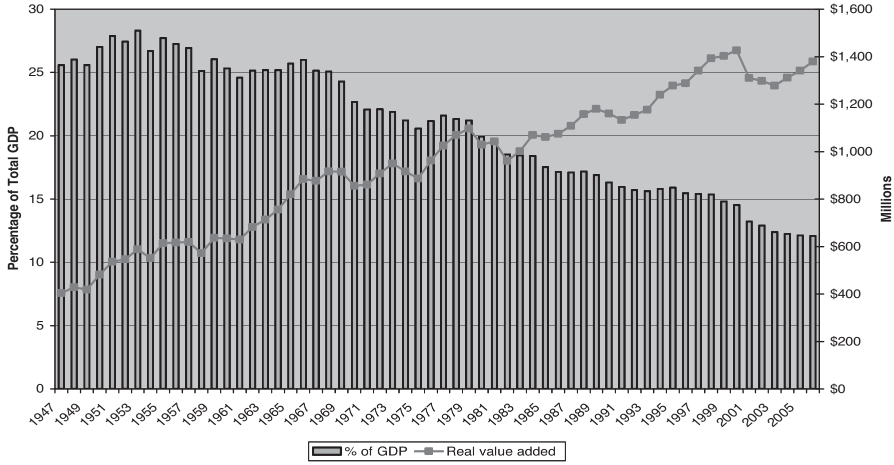
The first myth is that U.S. manufacturing is in decline, and that import competition and outsourcing explain that decline. But according to every statistic relevant to evaluating the health of the sector, manufacturing is unequivocally thriving. It is true that there are fewer workers in the manufacturing sector today than in years past, but manufacturing employment peaked in 1979. Strong productivity gains and the continuing shift of the U.S. economy toward services explain the decline in manufacturing employment.

It is also true that the manufacturing sector's share of total U.S. gross domestic product is smaller today than in years past, but the sector's share of the economy peaked in 1953. In absolute terms, manufacturing output continues to grow year after year, but in relative terms, it has declined because of the burgeoning U.S. services sector (see Figure 59.1).

In 2006, U.S. manufacturing achieved record highs for output, revenues, profits, return on investment, exports, and imports. In fact, U.S. manufacturers accounted for 55 percent of U.S. import value in 2006. In 2007, new records were set for output, revenues, value added, exports, and imports. Profits and return on investment trailed off because of the rising costs of commodities and transportation.

The U.S. manufacturing sector continues to transition away from labor-intensive production toward a higher value-added orientation, but it is

Figure 59.1
Manufacturing Value Added Percent of GDP and Real Value Added 1947–2006



SOURCE: Bureau of Economic Analysis, GDP-by-Industry Accounts, http://www.bea.gov/industry/gpotables/gpo_action.cfm.

certainly not in decline. And access to foreign markets for export sales and access to foreign suppliers for U.S. manufacturing inputs are important parts of the manufacturing sector's success story.

Myth: The Trade Balance Is the Scoreboard

The second myth is that exports are good, imports are bad, and the trade account is the scoreboard. According to this perspective, the United States is losing at trade, as evidenced by its large trade deficit.

But the notion that the trade account should be viewed as a trade policy scoreboard is misguided. First, the trade balance is simply not a function of trade policy. It is a function of fiscal and monetary policy, and of disparate patterns of savings and consumption around the world. Second, the idea that balanced trade or a trade surplus should be an explicit goal of policymakers is folly. Since 1983, the trade deficit has increased from $67 billion to around $800 billion. Yet during that period, real GDP has grown at an average annual rate of 3.2 percent, and employers have added an average of 1.8 million net new jobs to payrolls every year. The unemployment rate has also been in decline for decades: the average rate in the 1980s was 7.3 percent; in the 1990s, it was 5.8 percent; and between

2000 and 2007, it averaged 5.2 percent. The evidence suggests that imports and the trade deficit are pro-cyclical. They both grow as the economy grows, and they both slow and shrink as the economy slows and recedes.

That balanced trade or a trade surplus is even desirable is open to debate. Japan has run a large trade surplus for decades, yet its economy has grown at an anemic 1.2 percent annually since 1991. Germany, another country with a long-standing trade surplus, experienced persistent double-digit unemployment until very recently. What is preferable: balanced trade or robust economic growth?

Myth: Our Trade Partners Cheat

The third myth is that the United States is losing at trade because its trade partners cheat with impunity, and that better enforcement of our current trade agreements would help reverse the first two myths. The most prominent cheater according to those who hold this view is China, which engages in industry subsidization, currency manipulation, intellectual property theft, unfair labor practices, dumping, and other underhanded methods.

Although some of the assertions of rules violations may have merit, the total effect on the trade account is negligible. ‘‘Unfair trade’’ constitutes a tiny fraction of overall trade, yet the emphasis that Congress has placed on systematic enforcement confers undue significance on the issue, thereby reinforcing negative perceptions about trade and our trade partners.

Curiously, a study requested of the U.S. International Trade Commission in 2007 by the House Ways and Means Committee about Chinese government policies and their effects on the bilateral trade deficit was abruptly terminated in 2008 by the chairman of that committee. Observers suggested that the committee came to realize that the study might not provide adequate support for the theory that a significant relationship exists.

The 111th Congress would do the country a great service by allowing independent agencies to research and then publish the objective facts about manufacturing, imports, trade agreements, and the trade account. Finding and sharing the truth and letting the ‘‘chips fall where they may’’ should be among the first steps toward rebuilding the pro-trade consensus.

Trade Policy for the 21st-Century World Economy

Globalization has changed the way agriculture, manufacturing, and services industries do business. The emergence of previously moribund economies has expanded the labor pool and has permitted a much more diversified and stratified division of labor, which has created scope for elaborate, dispersed, transnational production processes where countries specialize in particular value-added operations.

Yet the politics of U.S. trade policy remain rooted in an outdated conception of trade as an ''us versus them'' or an ''our producers versus their producers'' proposition. Though that characterization was never entirely apt, it is a gross mischaracterization today.

Today, it is difficult to distinguish our producers from their producers. Are companies headquartered in Tokyo, Stuttgart, and Stockholm with production facilities in Ohio, South Carolina, and California our producers or theirs? Is Ford's production plant in England or Intel's in China theirs or ours? If we welcome their producers' employing our workers and contributing to our local economies, should U.S. policy treat those producers as adversaries when they sell to U.S. consumers from abroad? Should a ''good'' American living in Tennessee care more about the success of a U.S. company in the state of Washington or a Tennessee-based subsidiary of a South African company?

The practical, everyday workings of the global economy defy the quaint perceptions held by policymakers and reflected in our outdated, mercantilist trade policy. Collaborations of our producers and their producers compete against other collaborations of our producers and their producers. There is really no practical difference between their producers and our producers, and therefore little utility to trade policy that is premised on the existence of important distinctions.

What is important is how much and what kind of economic activity is occurring in the United States. And that is very much a function of our ability to compete with other countries for talent and investment. To attract investment and talent, the United States must be open to foreign investment, foreign inputs, and foreign workers. And the customs and other administrative procedures that govern movements of goods into and out of the United States must be transparent, predictable, and frictionless.

If our policies are hostile to foreign investment, then value-added activities and the jobs they create will go elsewhere. If we are unaccommodating of foreigners with unique skills—at either end of the economic spectrum—then the investment and value-added activities will go elsewhere. If importing raw materials and components into the United States becomes logistically challenging or unreliable, businesses may see fewer advantages in having production facilities in the United States.

How, then, can Congress work toward rebuilding the pro-trade consensus?

First, Congress should pass the pending free trade agreements with Colombia, Panama, and South Korea, which will help restore U.S. credibility while locking in Americans' duty-free or low-duty access to imports and providing U.S. manufacturers with important new export opportunities.

Second, reauthorizing trade promotion authority for the executive branch would signal the world that the United States has recovered from its bout of self-doubt and stands ready to lead the world toward greater trade openness. Prospective trade agreement partners are more likely to negotiate and conclude agreements if they know the final deal will not be amended or unduly delayed in Congress. The expiration of trade promotion authority in June 2007 contributed to the breakdown in WTO negotiations in 2008.

Third, Congress should acknowledge that U.S. agricultural policy is a constant irritant to international relations, and a costly burden at home (see Chapter 18). American subsidies hurt other agricultural exporting nations, many of which are developing countries, and complicate efforts of U.S. trade negotiators to encourage market openings abroad. Combined with policies promoting the use of biofuels, they have transferred billions of dollars from taxpayers to farmers over the last year: in the last 20 years alone, the opportunity cost of U.S. farm programs to nonfarm U.S. consumers and producers has totaled $1.7 trillion. Transfers to farmers are regressive, too: the average farm household income in 2006 was more than 17 percent higher than the average American household income, according to the Department of Agriculture. The protection of American sugar, dairy, and rice farmers costs American consumers billions of dollars a year and should be removed. Congress can do a great favor to the nation by repealing agricultural supports immediately.

Fourth, Congress should act to ensure that the costs of physically moving goods into and out of the United States—the costs of compliance with customs and other administrative requirements and the cost of transportation and logistics services—are not unduly burdensome to importers and exporters. Accordingly, Congress should exercise its oversight of U.S. Customs and Border Protection to ensure that the agency's cargo security mandate is not suppressing its trade facilitation mandate. Measures to improve the chain of administrative and physical procedures involved in the transport of goods and services across international borders could be more consequential than a new round of multilateral tariff cuts. By World Bank estimates, a one-day reduction in both U.S. import and export clearance processing time could increase U.S. trade by almost $29 billion per year. In that spirit, Congress should finally repeal the anachronistic

Jones Act, which bans foreign shipping between U.S. ports and costs the American economy an estimated $2.8 billion (1996 dollars) annually in higher shipping costs, according to a 1996 U.S. International Trade Commission study. Permitting greater competition in maritime shipping (as well as air and rail transport) would reduce costs and prices, and help the United States remain competitive as a destination for investment.

Fifth, despite its imperfections, the WTO has been an important institution that has served U.S. interests well. Congress should demonstrate its commitment to international trade rules by heeding the recommendations of the Dispute Settlement Body, even when its own laws are impugned by that body. After all, if Congress expects U.S. trade partners to play by the rules and to accept findings that their own laws and regulations may be out of conformity with WTO commitments, then it should stop dragging its feet and comply with the outstanding rulings concerning U.S. trade policies.

Sixth, not only should Congress revise the antidumping law to bring it into conformity with the findings of the WTO Dispute Settlement Body, it should reevaluate its long-standing, bipartisan support for the law. The antidumping law is a vestige of a bygone industrial era, which serves the very narrow interests of a few producers and their representatives in Congress. Although support for antidumping is often cloaked in rhetoric about fair trade and level playing fields, the fact is the law indiscriminately punishes interests that have done nothing wrong. Moreover, that law is used frequently, nowadays, by U.S. companies against other U.S. companies. The globalization of supply chains has rendered antidumping superfluous, if not absurd.

Seventh, Congress should renounce the hyperbole and fearmongering that have come to characterize the trade debate, and instead engage in honest, fact-driven discussion about trade and its effect on the U.S. economy. To that end, Congress should refrain from suppressing the results of objective trade analysis when they don't serve a particular hypothesis.

By any reasonable measure, Americans are better off now than during comparable periods in the past, and expanding engagement in the global economy has played an important role in the ongoing, upward trend in American employment and living standards. To promote further progress for American workers and households, Congress and the administration should pursue policies that expand the freedom of Americans to participate in global markets.

Suggested Readings

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