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James K. Glassman

Why We Trade

President Clinton issues a report card today on the first three years of the North American Free Trade Agreement, or NAFTA. He'll say it's been a success because our exports have risen despite Mexico's terrible financial crisis. Opponents will say it's been a failure because our trade deficit has widened and we've lost jobs. And we'll be back to a bloody fight.

NAFTA won't be repealed, but if it's perceived as a flop, it will jeopardize the extension of liberalized trade to Chile, the rest of Latin America and Asia.

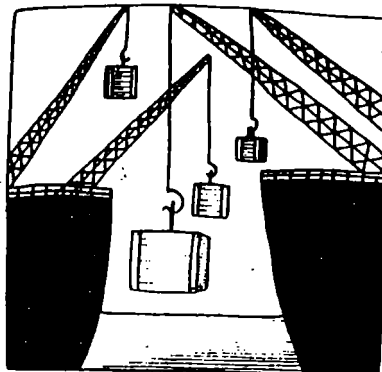
In order to win agreements with those countries, Clinton needs "fast-track" negotiating authority, so Congress can't delay the deals or add crippling amendments. Fast track is vital, but to get it, advocates in the White House and Congress are going to have to stop making the wrong arguments on behalf of more open trade.

The worst is that free trade creates jobs. It doesn't, but it does do something far better. It creates wealth.

Jobs are not an end in themselves. They are the price we pay for what we really want. Or as Adam Smith put it in 1776, "Consumption is the sole end and purpose of all production." Imports are the benefit; exports are the cost.

This is a tough idea for Americans to grasp, since they've been listening for years to politicians extol the virtues of "jobs, jobs, jobs," as a State Department official put it during the NAFTA debate. But consider an anecdote told in the *Cato Journal* by Jerry Jordan, president of the Federal Reserve Bank of Cleveland.

Jordan describes a U.S. businessman visiting China a few years ago. The American came upon a team of 100 workers building a dam with shovels. He commented to a local official that, with an earth-moving machine, a



BY MARGARET SCOTT

single worker could build the dam in an afternoon.

The official replied, "Yes, but think of all the unemployment that would create."

"Oh," said the businessman. "I thought you were building a dam. If it's jobs you want to create, then take away their shovels and give them spoons."

Work is what we need to do to in order to acquire things to live well. Free trade helps us get those things more cheaply because it allows many more producers to sell them to us—and because it frees us to concentrate on the work we do best.

Say, for example, that a country is full of brilliant electronic engineers but that it won't allow any textile imports across its borders. The engineers would have to sew their own shirts to wear. They'd have less time for

electronics, and the country would be poorer for it.

What about a trade deficit? Imagine that the country that sells the shirts never buys the electronics. Instead, it takes back little pieces of paper called, say, dollars. That doesn't sound like such a bad deal for the electronics-specializing country: They send us shirts, we send them paper promises.

But the protectionist impulse has always been strong in America. In Adam Smith's words: "In a mercantile [or protectionist] system, the interest of the consumer is almost constantly sacrificed to that of the producer." That's because producers—and their union allies—don't like competition, and they enlist the aid of politicians to keep it out.

To resist the protectionist impulse, the United States has needed tough, principled presidents. Unfortunately, Clinton is preoccupied (he almost lost NAFTA and the World Trade Organization for the same reason). He also wants his vice president, Al Gore, to succeed him—and Gore's likely Democratic foe, House Majority Leader Dick Gephardt, is a fierce opponent of extending the NAFTA idea.

A nervous Clinton administration asked Rep. Bill Archer (R-Tex.), the House Ways and Means chairman, to put off consideration of fast track until September. Archer had no choice but to delay. He assured me recently, "Fast track isn't dead." Maybe not, but the threats are ominous.

They'll grow worse. The president's report, I'm afraid, will only highlight the errors made by NAFTA advocates.

"Free trade does not create jobs," writes Stanford economist Melvyn Krauss in "How Nations Grow Rich," his excellent new book.

Instead, "it creates income for the community by reallocating jobs and capital from lower-productivity to higher-productivity sectors of the economy."

Free trade gives us not more jobs but *better* jobs. It may kill jobs in the textile industry, which is labor-intensive, but breed new jobs in electronics, where ingenious Americans have a "comparative advantage," the famous phrase used by David Ricardo in 1815.

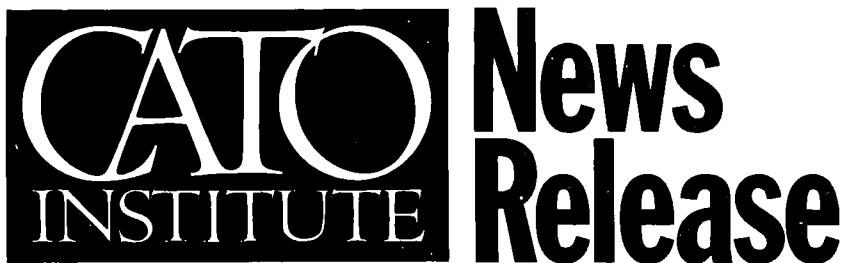
Concede the losses; they're part of the creative destruction that leads to a stronger economy. The Labor Department has declared 125,000 job-losing Americans eligible for special NAFTA aid, including 636 workers at a toilet-paper plant in Memphis. Through such events, the market is telling us it's more efficient for some other country to make our toilet paper.

But it's sheer lunacy to argue that, on balance, free trade hasn't made the United States richer. In the years since NAFTA and the WTO were established, our unprecedented economic boom has only accelerated. Gross domestic product is rising at an annual rate of 4.1 percent. Unemployment is just 4.8 percent. Do opponents of NAFTA believe that, with more barriers to Mexican goods, unemployment could be 3.8 percent?

"There can be no doubt," writes Krauss, "that the prosperity of the industrial nations since World War II has been due largely to global specialization and interdependence."

Exactly. That's why we trade. And that's why our prosperity is at stake if—out of cowardice, ignorance and cynicism—Congress and the president decide now to retreat.

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Fast-track trade authority essential to worldwide drive to lower trade barriers
Cato analysis says "clean" trade bill would prevent president from abusing process

"If Congress fails to pass a clean fast-track bill, agreements to liberalize trade will be virtually impossible for the president to negotiate," according to a new study released today by the Cato Institute.

In "The Fast Track to Freer Trade," Daniel T. Griswold notes that much of the nation's current prosperity is the result of trade agreements adopted over the past two decades using fast-track authority. Since 1974, "every U.S. president, from Gerald Ford to Bill Clinton, has been granted authority to negotiate trade treaties for an up-or-down, no-amendments vote in Congress. The fast-track approach has yielded impressive fruit," Griswold notes, citing the Tokyo Round of the General Agreement of Tariffs and Trade in 1979, the U.S.-Canada Free Trade Agreement in 1988, NAFTA in 1993 and the Uruguay Round of GATT in 1994.

"Each of those agreements lowered tariff and nontariff barriers, opened new markets for U.S. exporters and raised the living standards of U.S. consumers. The agreements have locked the gains of free trade into place," Griswold says, adding, "It is almost certain that none of those trade-expanding agreements would have been possible without the fast-track process."

"Today the United States is both the world's largest exporter and its largest importer," and international trade now accounts for nearly 30 percent of our gross domestic product, Griswold points out. "Export jobs, on average, pay about 14 percent more than jobs in nonexport industries."

Griswold argues strongly for a "clean" fast-track bill, "without language that could allow the president to include trade-restricting agreements on environmental and labor issues." Such a bill "would not preclude the United States from pursuing labor and environmental agreements through other channels. But it would prevent the president from abusing the fast-track process. The only real effect of tying trade to such standards will be to arouse the resentment of less developed countries," something that was much in evidence in recent international trade meetings in Paraguay and Singapore. Dan Griswold is director of trade and immigration studies at the Cato Institute.

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THE FAST TRACK TO FREER TRADE

BY DANIEL T. GRISWOLD

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Executive Summary

The case for passing fast-track trade legislation is simple: The most promising approach for advancing free trade in today's global economy is through negotiated trade agreements, and those agreements will be difficult if not impossible to reach if the president of the United States is denied fast-track authority.

Free trade allows Americans to live freer and more prosperous lives. Trade with other nations benefits consumers with lower prices and more choice, while producers gain export markets, new technology and lower-cost inputs. Export-related jobs in the United States pay more and are growing four times faster than non-export jobs.

To promote free trade, Congress should pass a "clean" fast-track bill, one that specifically forbids the inclusion of labor and environmental standards in future trade agreements. Adding labor and environmental issues to the agenda would only provide another pretext for protectionism.

THE FAST TRACK TO FREER TRADE

by Dan Griswold

Introduction

Americans suffer a kind of schizophrenia toward trade with other nations. We export more goods and services than any other nation, yet we endlessly worry about our ability to "compete." Our economy has created millions of net new jobs since 1980, during a time of dramatically rising imports, while many Americans still believe more imports mean fewer jobs. In the 50 years since the signing of the original General Agreement on Tariffs and Trade, Western nations have enjoyed a historic period of peace and prosperity, yet the debate about trade today is full of the metaphors of war.

The current controversy in Washington about granting the president fast-track authority for trade negotiations contains the same paradox. The flow of goods, services, and investment across our borders is booming, incomes are rising, and the unemployment rate has fallen to a 25-year low. Yet the public is ambivalent about free trade¹ and Congress is deeply divided on renewal of fast-track authority.

Failure to pass fast-track authority to reduce trade barriers would be a mistake. Congress should approve the authority for the president soon, without the baggage of environmental and labor language. If Congress fails to pass a clean fast-track bill, agreements to liberalize trade will be virtually impossible for the president to negotiate. Progress toward freer trade, economic integration, and a more efficient and prosperous U.S. economy will be hindered.

Free Trade and America's Future

Free trade, like the free market in general, allows people to live freer and more prosperous lives. A policy of free trade reduces the power of government and special interests to dictate the shape of an economy, leaving that

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task to the countless daily decisions of decentralized producers and consumers in the global marketplace.

Free trade among nations increases global prosperity by allowing people to specialize in what they produce relatively more efficiently. As Adam Smith argued more than two centuries ago, it would be foolish for a family to insist on making its own shoes, tailoring its own clothes, and growing all its own food when it could buy them more cheaply from the shoemaker, tailor, and farmer. "What is prudence in the conduct of every private family, can scarce be folly in that of a great kingdom. If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry, employed in a way in which we have some advantage."²

Trade with other nations allows American consumers to enjoy a wider range of goods and services at lower cost than if we produced everything for ourselves. American exporters gain through access to a much larger world market. The increased sales in a global market can lead to lower costs through economies of scale, leading to lower prices, yet more sales, and further efficiency gains, in what economists call a "virtuous cycle." Increased competition from imports spurs innovation among domestic firms while protecting consumers from potential monopolies. For these reasons, nations that pursue free trade policies tend to prosper while those that hide behind protectionist barriers stagnate.³

The American economy has become increasingly intertwined with the rest of the world. Since 1970, America's total imports and exports in the broadest measure--goods, services, and investment income--have increased from 13 percent of our gross domestic product to nearly 30 percent.⁴ Today the United States is both the world's largest exporter and its largest importer.

Exports provide a livelihood for a growing share of American workers. During the last decade, the number of jobs supported by exports rose four times faster than the overall number of private-industry jobs, to more than 12 million. And export jobs, on average, pay about 14 percent more than jobs in nonexport industries.⁵ While expanding trade does not significantly affect the total number of jobs in an economy, it does tend to raise the quality and pay of the jobs available.

Benefits of free trade spill beyond our own borders, creating a more peaceful and prosperous world. Nations with strong commercial ties tend not to fight wars with each other. As nations become more economically integrated with each other, the economic cost of disrupting those ties through war rises dramatically. Free trade also has allowed millions of people in less developed countries to rise out of poverty, proving itself far more effective than failed and costly U.S. foreign aid programs.

Protectionism, in contrast, makes people poorer by raising prices and diverting resources away from more efficient industries. When the U.S. government protects the steel, automobile, textile, and sugar beet industries, it raises profits in those industries at the expense of consumers. In the typical case where an industry gains protection, the losses in efficiency and consumer welfare far outweigh the gains to the protected industry and to the government--leaving the nation as a whole poorer.

Protection acts as a kind of tax, robbing from the mass of consumers for the benefit of a narrow slice of producers. By concentrating power in the hands of government officials, it breeds rent seeking by special interests. This is why protectionist measures that were supposed to be temporary, such as the textile import-quota agreement of 1962, tend to remain in force for years and decades after they were originally set to expire. Protection becomes just another government subsidy, with consumers paying the cost. As a result, the total cost to Americans of all protection against foreign-made products comes to about \$1,500 a year for a family of four.⁶

One argument that cannot be made for free trade is that it benefits everyone equally or immediately. The dislocation caused by trade can be painful for workers and investors in industries that are becoming relatively less competitive. Our response to the uneven effects of trade should not be protection but rather enhancement of the ability of workers and business to adjust to change by making our domestic markets more flexible. After all, technology itself causes dislocation. Consider what has happened to the typewriter industry in the past 20 years, or the horse-and-buggy business in the 1920s. Should the government attempt to "save jobs" by slowing the introduction of new products and technology? That is essentially what protectionists want to do. Like modern Luddites, opponents of

free trade seek to slow economic progress at its source rather than adjust to the consequences of a dynamic free market.

Fast Track, Necessary Track

The case for fast-track authority is simple: The most promising approach for advancing free trade in today's international political economy is through negotiated trade agreements, and those agreements will be difficult if not impossible to reach if the President of the United States is denied fast-track authority.

Of course, negotiated agreements are not the only way to advance free trade. A strong economic case can be made for unilateral trade liberalization. By lowering our own barriers to trade regardless of what other countries do, the United States would make its own economy more efficient and its citizens freer to control the fruits of their own labor. It would also offer a powerful example to other nations of the benefits of an open economy.⁷

Negotiated trade agreements can also advance economic liberty. By linking lower barriers at home with reciprocal liberalization abroad, a country's import consumers and export industries can be brought together in a powerful pro-trade coalition. Agreements also reduce the chances of a destructive trade war by effectively locking in lower trade barriers through mutual agreement. Finally, it's hard to argue with success. American participation in eight rounds of GATT and in free-trade agreements with Canada and Mexico has helped bring global trade barriers to historic lows and to keep them down.

Fast-track authority is not a gimmick. It allows the president to submit a negotiated trade treaty to Congress for an up-or-down vote without the possibility of amendment. Without assurance of a fast-track vote, foreign governments would find it virtually impossible to negotiate with the U.S. executive branch because any treaty they agreed to could be rewritten by Congress. Negotiations would be pointless.

Fast-track authority was first granted in the Trade Act of 1974. Since then every U.S. president, from Gerald Ford

to Bill Clinton, has been granted authority to negotiate trade treaties for an up-or-down, no-amendments vote in Congress. The fast-track approach to trade has yielded impressive fruit. Four major trade agreements have been implemented since 1979 under fast-track authority: the Tokyo Round of GATT in 1979, the U.S.-Canada Free Trade Agreement in 1988, the North American Free Trade Agreement with Mexico in 1993, and the Uruguay Round of GATT, signed in 1994.

Each of those agreements lowered tariff and nontariff barriers, opening new markets for U.S. exporters and raising the living standards of U.S. consumers. The agreements have locked the gains of free trade into place, making it far less likely that the major trading nations of the world will slip into a trade war as they did in the 1930s. It is almost certain that none of those trade-expanding agreements would have been possible without the fast-track process.

One argument raised against the fast-track process is that it undermines the constitutional power of Congress. Under Article I, Section 8 of the U.S. Constitution, Congress holds the power "to lay and collect. . .duties" and "to regulate commerce with foreign nations." Through fast-track authority, Congress designates the executive branch as its chief negotiator, with the explicit understanding, written into law, that Congress will be informed of the progress of negotiations and that any resulting agreement will be considered under a "closed rule" barring amendments. Once a treaty has been signed by the president, Congress retains the power to write the "implementing legislation" that would conform U.S. law to the agreement. Even after the legislation has been written, Congress retains the ultimate power to vote the trade treaty down.

Executive branch participation in trade policy has evolved from bitter experience. In 1930, Congress passed the infamous Smoot-Hawley tariff bill, the most protectionist piece of legislation in U.S. history. The Tariff Act of 1930 was the result of legislative log-rolling, in which members of Congress agreed to support higher tariffs to benefit industries in other states and districts in exchange for support for tariffs that benefited their own special interests. The result was one part comical--including a 1,000 percent tariff on cashew nuts even though the U.S. had no domestic cashew industry⁸--and nine parts disaster. Passed in the name of job creation, the bill only plunged the country deeper into the Great Depression. Other nations retali-

ated, predictably, by raising their own tariffs, leading to a drastic fall in global trade.

Congress began to repair the damage of its protectionist binge by passing the Reciprocal Trade Agreements Act of 1934. This act granted the president the authority to negotiate tariff reductions of up to 50 percent with other nations that were willing to reduce their own tariff barriers. Like fast-track authority, the 1934 trade act shifted authority from the legislative to the executive branch. Arguably, it granted the president even more leeway than current fast-track legislation by giving advance approval, within limits, to negotiated tariff reductions.

Like the Reciprocal Trade Agreements Act before it, fast-track authority is based on the political reality that the chief executive can more effectively represent the nation's general welfare on trade issues than the legislative branch. Although all presidents, including Bill Clinton, are subject to pressure from special interest groups, on trade matters the chief executive has a greater incentive than individual members of Congress to consider the broad interests of consumers and the economy as whole.

"Clean" Fast Track Is the Only Way

Congress should pass a "clean" fast-track bill--that is, a bill without language that could allow the president to include trade-restricting agreements on environment and labor issues in a fast-track trade bill. Any language that would allow the president to hold free trade hostage to labor and environmental demands should be rejected by Congress.

Free trade and rising labor and environmental standards are complementary, not competing, objectives. The best way to promote higher standards around the world is to promote free trade and the efficiencies it brings.

Working conditions in less developed countries cannot be raised by government fiat. If new labor regulations were all that were needed, countries such as Bangladesh and Mexico could simply legislate a Western-style minimum wage, maximum workweek, generous vacation time, and restrictions on employing children. But such regulations would only cre-

ate hardships and unemployment because workers in Third World countries are simply not productive enough to justify the cost of the regulations. Rising labor standards are the result of economic growth, not a cause, and free trade is one of the principal ways of spurring growth.

The tie between free trade and better labor standards was confirmed in a 1996 study by the Organization for Economic Cooperation and Development (OECD), the club of economically advanced countries. After analyzing core standards in more than 70 countries, the OECD concluded, "The strongest finding is that there is a positive association over time between successfully sustained trade reforms and the improvement in core [labor] standards."⁹

The OECD study also undermined the mistaken belief that less developed countries can capture export markets and attract foreign investment by systematically lowering labor standards. It found that in most countries the level of core labor standards made no real difference in the investment decisions of multinational companies or in the country's export performance.

The same logic applies to environmental standards. Nations adopt different regulations for rational reasons. Poorer nations tend to have lower standards because they simply cannot afford the luxury of imposing Western-style limits on air, water, and other forms of pollution. As living standards improve and more people rise above mere subsistence, countries can afford to adopt more stringent environmental rules. Great Britain, the United States, and other developed countries experienced the same transition in the last century, as soot, sewage, and other pollution produced by the industrial revolution was eventually curbed by the use of cleaner technology--technology made possible and affordable by economic growth. Blocking trade with countries that fail to enforce American-style standards will slow economic growth in the target countries and make those standards all the more difficult to attain.

The only real effect of tying trade to standards will be to arouse the resentment of less developed countries. In August, the Rio Group of Latin American countries issued a statement at their meeting in Paraguay that trade should not be intertwined with labor and environmental demands. At the ministerial meeting of the World Trade Organization in Singapore last December, a decisive majority rejected the pro-

posal of the United States to saddle the WTO with policing international labor standards.

Compromise language approved by the Senate Finance and House Ways and Means committees in early October 1997 would allow the president to negotiate trade deals under fast-track authority in which the parties agreed not to loosen environmental and labor standards to gain an advantage in trade. Specifically, the Ways and Means version of the bill approved by the committee on October 8 states that a principal negotiating objective of the United States in the area of labor and environment will be "to ensure that foreign governments do not derogate from or waive existing domestic environmental, health, safety, or labor measures, including measures that deter exploitative child labor, as an encouragement to gain competitive advantage in international trade or investment."

At best this language is unnecessary. As the OECD study indicates, fears of a "race to the bottom" are overblown. At worst the provision would reduce the ability of governments to adapt their regulatory structures to meet changing economic conditions and social preferences.

A clean fast-track bill, one without any reference to labor and environmental standards, would not preclude the United States from pursuing labor and environmental agreements through other channels. But it would prevent the president from abusing the fast-track process by attaching labor and environmental legislation to a bill that cannot be amended by Congress.

The driving purpose of the fast-track process is to open global markets to trade and investment. Adding labor and environmental agreements to the agenda, especially if they involve imposing sanctions for noncompliance, would have just the opposite effect, providing yet another pretext for protectionism.

The Success of NAFTA

Despite what opponents of fast-track authority contend, the North American Free Trade Agreement has been a success by any measure. Trade among the United States, Canada, and Mexico has flourished since the passage of NAFTA, benefiting

American consumers and exporters. Since 1993, two-way trade with our NAFTA partners has increased by 44 percent, to \$421 billion in 1996. That compares with a 33 percent increase in American trade with all other countries.¹⁰ Mexico has now become America's second largest market for exports, just ahead of Japan and behind only Canada.

No Giant Sucking Sound

NAFTA has been modestly beneficial for the U.S. economy, even though Mexico's economy is relatively small compared to the American economy. It is obvious today that the "giant sucking sound" predicted by Ross Perot has not been heard. Since the passage of NAFTA in 1993, the real gross domestic product of the United States has expanded by 12 percent and civilian employment has grown by more than 8 million, including a net increase of half a million jobs in manufacturing.¹¹ Inflation has remained subdued at 2 to 3 percent, thanks partly to the price competition of imports.

The job "losses" that critics of free trade blame on NAFTA are mostly fictitious, based on the misuse of trade deficit numbers. About 150,000 Americans have filed for benefits under a program for workers allegedly displaced by increased imports from Mexico and Canada.¹² As painful as the displacement may be for those workers, the U.S. economy during the last four years has created that many net new jobs approximately every three weeks.¹³

Nor has investment in the United States suffered since the passage of NAFTA. Total nonresidential fixed investment in the United States has risen by one-third since 1993, from \$600 billion to an annual rate of more than \$800 billion so far in 1997.¹⁴ Investment in the United States last year included \$77 billion in direct foreign investment, making the United States the No. 1 destination in the world for foreign capital. In contrast, American direct investment in Mexico since the passage of NAFTA has averaged about \$3 billion a year, or less than one-half of 1 percent of the capital invested in the United States during the same period.¹⁵ So much for a giant sucking sound.

Mexican Reforms on Track

Opponents of free trade blame NAFTA for Mexico's painful peso crisis of 1994-95. But the plunge in Mexico's out-

put in 1995 had nothing to do with free trade and everything to do with politics and botched monetary policy. Mexico's peso collapse was caused by a lethal combination of loose monetary policy and an inflexible and overvalued exchange rate, both aimed at boosting consumption in an election year. Indeed, Mexico has suffered a severe financial crisis in every election cycle since 1976--long before anyone had ever heard the term NAFTA.¹⁶ To blame the peso crisis on NAFTA makes no more sense than to blame a drunken driver's latest accident on his new car.

In reality, NAFTA and other market reforms softened the severity of the crisis and spurred Mexico's recovery. Today, the Mexican economy has resumed a growth rate of more than 5 percent, the unemployment rate has fallen to precrisis levels and personal consumption of goods and services is once again rising at a healthy, sustainable rate.¹⁷

This NAFTA-era recovery contrasts starkly with the protracted slump in Mexico that followed the 1982 debt crisis. Then it took the Mexican economy six years to recover its precrisis levels of production.¹⁸ More important, whereas the slump of 1982 prompted the Mexican government to nationalize its banks and raise trade barriers, the present government successfully resisted backsliding. Just as NAFTA supporters on both sides of the border had predicted, the trade treaty helped to lock in Mexico's broader economic reforms.

Food Safety No Cause for Alarm

Opponents of free trade and fast track have made an issue of food safety, arguing that expanded agricultural trade with Mexico and other less-developed nations has compromised U.S. health standards. The right response to any safety concerns should be to improve inspection procedures, not to deny ourselves the obvious benefits of being able to buy a wider range of fresh fruits and vegetables throughout the year at lower prices. After all, food can pose a health hazard whether it is imported or produced domestically, as the recent example of infected meat from a Nebraska plant demonstrated. Using food safety as an excuse to close our doors to agricultural imports could boomerang to hurt U.S. food exporters, who have also been accused of exporting allegedly unsafe food.¹⁹

More Than NAFTA II

Without the renewal of fast-track authority, the United States will be unable to move ahead on free-trade initiatives. Either the talks themselves will go nowhere, or other nations will determine their shape while the U.S. government sits on the sideline. Here are the major trade initiatives that depend on fast-track authority:

- In December 1994, President Clinton and the heads of 33 other nations in the Western Hemisphere met in Miami and agreed to pursue a Free Trade Area of the Americas by 2005. The agreement would remove artificial barriers to the movement of goods, services, and capital throughout the hemisphere, in effect extending NAFTA to the southern tip of South America. The United States has also pledged to Chile, the most advanced and liberalized economy in Latin America, that it would be first in line to become a full member of NAFTA. Without fast-track authority, Canada and the nations of Latin America will continue to negotiate free trade agreements among themselves, leaving the United States to confront discriminatory tariffs against its exports.
- In November 1994, representatives of the 18 members of the Asia Pacific Economic Cooperation forum agreed to eliminate barriers to trade among the region's more advanced economies by 2010, and among all APEC members by 2020. Without fast track, the United States would be unable to participate in any formal negotiations for the mutual elimination of trade barriers in a region that includes the world's fastest growing markets.
- Multilateral talks on eliminating barriers to trade in agriculture will begin in 1999, as agreed in the Uruguay Round of GATT. If the United States--the world's largest exporter of agricultural products--lacks the ability to implement a final agreement, it is difficult to imagine those negotiations succeeding. A historic opportunity to bring free trade to a sector that has long known protection and government control may be lost for years to come.
- The Uruguay Round calls for negotiations to lower barriers to trade in a number of important sectors, such

as maritime transport, construction and engineering, professional services, and government procurement. Fast-track authority will probably be necessary for any such agreements that require a change in U.S. law.

Fast-track authority is about much more than adding Chile to NAFTA. The agreements that could be negotiated under fast track open the dazzling possibility of free trade with the world's most dynamic economies within the next 15 years, and a dramatic reduction in barriers in those sectors in which the United States has historically enjoyed a competitive edge.

Conclusion

Without fast-track authority for the president, the United States will be unable to join in bilateral, regional, and multilateral agreements to lower barriers to trade. And without those agreements, momentum toward freer trade could be in jeopardy. Americans would lose the potential benefits of greater liberty and prosperity that would come from expanded opportunities to trade.

In a better world, governments would leave their citizens free to engage in trade with people in other nations. Trade agreements would be unnecessary. But because protectionism remains an option, trade agreements serve as useful tools to create domestic support for free trade while restricting the ability of governments unilaterally to raise trade barriers.

Congress should reject any attempt to tie trade agreements down with demands for tougher labor and environmental rules. Such demands will prove ineffective in achieving their goals while undermining efforts to liberalize trade.

Passage of a clean fast-track bill will advance the cause of free trade, enhancing the liberty and living standards of people in the United States and the rest of the world.

Notes

1. Polling the public on trade can be especially tricky. According to a story in Roll Call on September 4, 1997, p. 16, a poll in late July for NBC News/Wall Street Journal found 61 percent of those asked opposed to fast-track authority. But another poll that month for the Democratic

Leadership Council, in which the question differed slightly, found 53 percent in support.

2. Adam Smith, An Inquiry into the Nature and Causes of the Wealth of Nations (1776; New York: Random House, 1937), p. 424.

3. For an excellent survey of the failures of protectionism in other countries, see Jim Powell, "Protectionist Paradise?" in Freedom to Trade, ed. Edward L. Hudgins (Washington: Cato Institute, 1997), pp. 57-68.

4. "Open Markets--Domestic and Worldwide--Remain the Key to U.S. Economic Growth," World Trade Organization, October 31, 1996, p. 11, at the net address <http://www.wto.org/reviews/tprb46.htm>.

5. Gary C. Hufbauer and Bruce E. Stokes, "The Benefits of Open Markets and the Cost of Protection and Economic Sanctions," American Council for Capital Formation Center for Policy Research, Washington, September 9, 1997, pp. 4-5.

6. Ibid., p. 13.

7. For a comprehensive argument in favor of the unilateral approach, see Brink Lindsey, "Taking the Offensive on Trade Policy," in Market Liberalism: A Paradigm for the 21st Century, ed. Edward H. Crane and David Boaz (Washington: Cato Institute, 1993), pp. 227-42.

8. Jagdish Bhagwati, Protectionism (Cambridge, Mass.: MIT Press, 1988), p. 21.

9. Trade Employment and Labor Standards: A Study of Core Workers' Rights and International Trade (Paris: Organization for Economic Cooperation and Development, 1996), p. 6.

10. Office of the U.S. Trade Representative, Study on the Operation and Effects of the North American Free Trade Agreement, July 1997, p. 8.

11. Joint Economic Committee of the U.S. Congress, Economic Indicators, September 1997, pp. 2, 11, 14.

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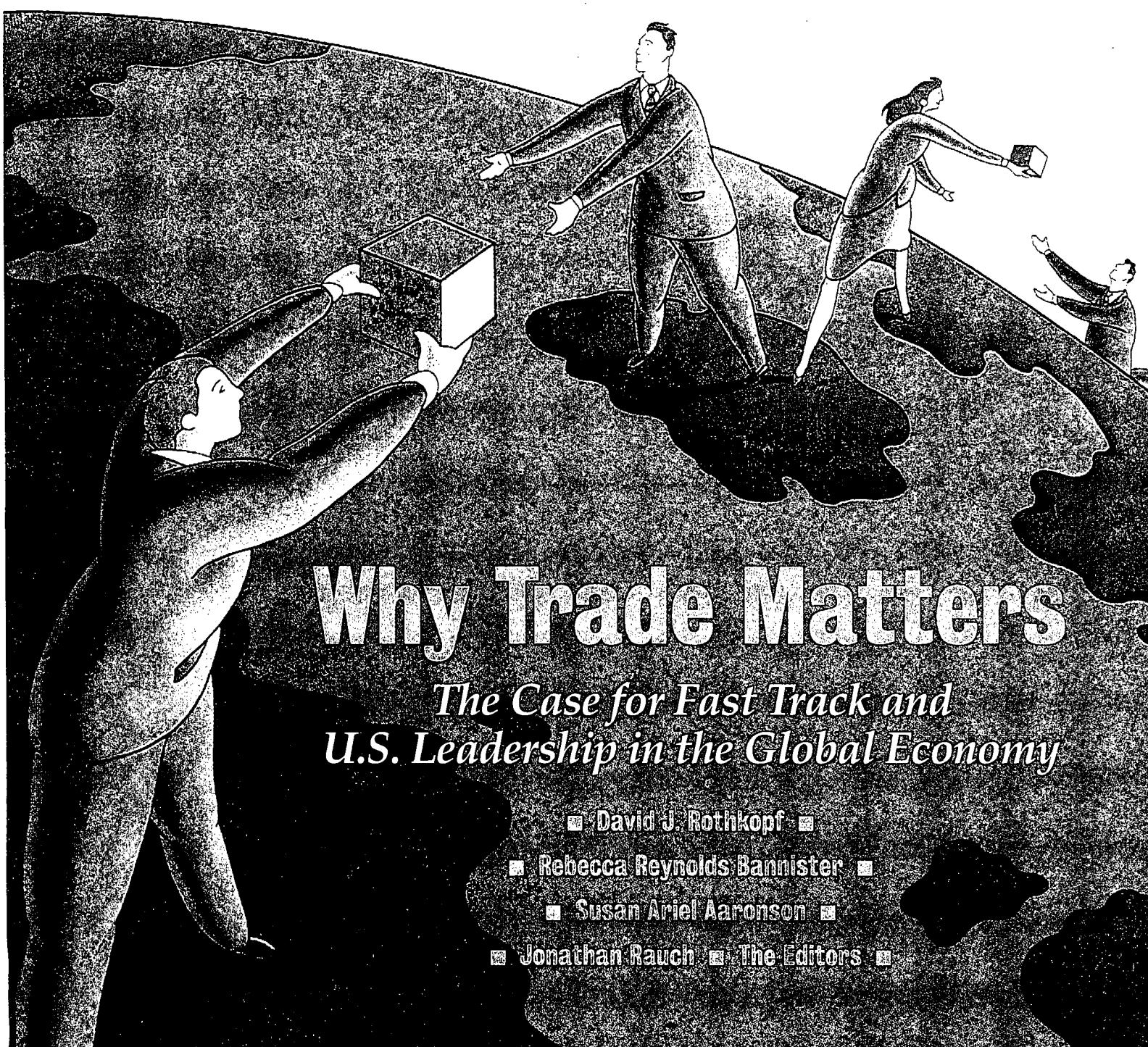
Fred Siegel on the Future of the Cities ■ Regis McKenna on Politics in Real Time

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A Worldview

As U.S. Exports Rise, More Workers Benefit, And Favor Free Trade

Even in Gephardt's Missouri,
Low Rate of Joblessness
Is Mitigating the Fears

Clinton's Plan Gets a Boost

By ROBERT S. GREENBERGER
Staff Reporter of THE WALL STREET JOURNAL
PACIFIC, Mo. — Today, President Clinton is expected to launch an all-out campaign to facilitate more free-trade agreements. House Minority Leader Richard Gephardt and his labor-union allies will counterattack, arguing that administration trade policies destroy American jobs. And establishment types will warn of rising protectionist forces.

But here, in and around Mr. Gephardt's own congressional district, it is evident that, with a buoyant economy slashing unemployment to a quarter-century low and U.S. exports booming, Mr. Clinton will surely win by the time the issue is resolved this fall — if he gives the effort the hard push he promises.

Part of the explanation is hanging from the rafters in Angeles Group Inc.'s warehouse, which flanks a cornfield outside this town near St. Louis: an array of foreign flags. Chairman Ray Kelly started displaying the flags five years ago when this maker of day-care-center equipment got its first overseas orders — and workers began grousing about the special handling they required. To underscore the connection between foreign sales and their jobs, he had a flag put up whenever an order from a new country came in. Now on display are nearly a dozen flags, including those of Australia, South Korea, France and, the latest entry, Russia.

A Sign of Success

This consciousness-raising through flag-raising works. When Armen Kachar, a Russian immigrant who is Angeles Group's quality-control manager, returned to Moscow on vacation this summer, Mr. Kelly asked him to follow up a sales lead. Mr. Kachar not only checked it out; he closed the deal. "We have great opportunities to sell in Russia," Mr. Kachar says.

And elsewhere. In the St. Louis area alone, more than 1,200 companies are now exporting, up from 600 five years ago, the U.S. Commerce Department estimates. Nearly three-quarters of them are small or midsize companies, including many low-tech manufacturers that seemed moribund a decade ago. In the past four years, Missouri's exports have climbed 56%, and 46 other states also have posted gains.

And as more companies flourish by exporting, a silent majority favoring more trade is forming in much of the country. One recent poll found 78% of respondents favoring expanded trade "on a reciprocal basis" — though a majority isn't convinced the North American Free Trade Agreement and other trade pacts have done so. Economists, however, say that trade has created more jobs than it has destroyed and that the new ones tend to be higher-paying. Thus, with a shortage of labor rather than an outflow of jobs in many areas, workers' acceptance of the global economy rises along with their pay.

Indeed, some union members around here talk like the "corporate elites" whom

Winners and Losers

Top 10 export gainers, 1992-96

STATE	% GAIN
New Mexico	+252%
South Dakota	+122
Hawaii	+120
Arizona	+ 92
Arkansas	+ 83
North Dakota	+ 75
South Carolina	+ 76
Iowa	+ 73
New Hampshire	+ 68
Michigan	+ 67

The only export losers, 1992-96

Oklahoma	- 5%
Washington	-12
Alaska	-24

Source: Massachusetts Institute of Social and Economic Research

critics assail as the beneficiaries of freer trade. "Yes, trade costs jobs to some extent, but it also creates jobs," says Timothy Buck, a Teamsters member who has spent 20 years at Multiplex Co., a St. Louis maker of beverage-dispensing equipment for fast food service. With U.S. sales relatively flat, about 40% of the company's products now go overseas. "Trade's necessary," adds Mr. Buck, who lives in Mr. Gephardt's district and voted for him.

Fewer Job Worries

Such attitudes obviously come easier when few people are worried about losing their job. Back in 1992, on the eve of the congressional fight to ratify Nafta, many workers were worried, and the economic uncertainty helped derail President Bush's re-election bid. The campaign's most memorable sound bite was Ross Perot's warning of a "giant sucking sound" as Mexico inhaled jobs from America.

But this summer, the sucking sound is a faint echo. Interviews last month with about 35 workers at eight St. Louis-area companies found not one who knew a

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Continued From First Page

colleague, friend or relative out of work because of foreign trade. Robert Kelley, president of the Greater St. Louis Labor Council of the AFL-CIO and a longtime Gephardt supporter, says "unemployment is almost nonexistent" in the local construction and service fields and is barely 3% in manufacturing. He expects another three or four years of labor shortages.

Nevertheless, President Clinton is getting into a battle today, and he will have to fight hard to win congressional approval for "fast track" authority to negotiate new trade agreements that Congress then can approve or reject but not amend.

Although organized labor represents less than 10% of private-sector workers, union leaders still have enough clout to intimidate many Democratic lawmakers who need their support at the polls. Mr. Clinton can win only if about two-thirds of House Republicans go along, administration officials say. However, the Clinton team predicts it will prevail.

Even so, angry complaints about foreign trade will persist for years, partly because of lingering concerns about long-term job security. When Sunnen Products Co., a maker of industrial bore-sizing equipment, opened a small Shanghai facility several years ago, John Lanham, a worker at its huge factory here, wondered whether his job might be at risk someday — even though Sunnen employs only 35 people in Shanghai and more than 700 here, and says it won't shift work to China. "I'm not saying I feel threatened, but I do think about it," Mr. Lanham, 42, says.

But even one local worker who was hit by an import-related layoff remains remarkably supportive of trade expansion.

THE WALL STREET JOURNAL WEDNESDAY, SEPTEMBER 10, 1997

George Shola worked at Leslie Stephen Ltd., a shoe manufacturer, before it, like many St. Louis shoemakers, succumbed to competition from China and Brazil a year ago. He sought aid under a special Labor Department program but landed another job before the paperwork was completed. However, the new job pays only \$8.70 an hour, below his previous wage of \$10.

Yet Mr. Shola, a 45-year-old with a gray beard and professorial look, isn't bitter. "America is based on the free-enterprise system," he says. "If companies can get their shoes from China cheaper, they should do it. I'm just one of the people who fell through the cracks in that industry."

Shoemakers' troubles contrast sharply with the success of those that benefit from trade growth. Many succeed by finding a niche market, then using better technology to improve their products.

Reinventing the Company

National Graphics Inc., a specialty coater of papers and films, realized in 1989 that its product line — then mainly related to printing plates — was becoming obsolete. So, Steven Linne, its president, decided to reinvent the company. None of its 1989 products remain in its lineup, but its business has tripled. About 60% of the new products are exported, and exports, Mr. Linne says, "helped save our company."

Like other exporters here, Mr. Linne says selling abroad has improved the company's overall performance. "It makes us remain creative," he says. "We have higher wages [than many foreign countries], so we have to stay ahead with the technology of our products and the technology of how we produce our products," he says, walking past computers silently regulating the mix of coating materials.

Nearby, Laura Monsivals, 27, sits at a desk with a computer and microscope, testing large sheets of coated paper. If she finds four defects per square foot, the run is rejected. She earns \$12.45 an hour and usually gets four to eight hours a week of overtime. "It's comfortable to know that I work for a company that's stable and able to give me overtime," she says.

Aiding the increasing numbers of small companies getting into exporting, Mercantile Bank of St. Louis now offers services once available to only large companies, such as buying and selling foreign currencies and hedging them, says Neil George, chief international economist. Mr. George says this part of the bank's business has doubled in the past three years and mostly involves transactions below \$100,000.

And trade is likely to continue growing "as more companies get comfortable with the idea of exporting and talk to their friends who are doing it," says Mick Redohl, president of AAIM Management Association, a nonprofit group with more than 1,000 St. Louis member companies.

Distrust of Washington

The clear link between exports and paychecks makes many workers skeptical about Rep. Gephardt's calls for adding international labor and environmental standards to trade agreements, which could complicate commercial relations and the chances of congressional approval of fast-track authority. Here as elsewhere in the country, distrust of Washington and a sense of economic well-being combine to make many voters hope the government mainly will leave things alone.

Sitting in the company cafeteria at Sunnen Products, Charles Miller, 46, a 27-year employee, says disparities in foreign wage rates will take care of themselves. Japanese workers, he says, "got gradual wage increases, and now they have cars and things, and they've had to raise their prices. The [U.S.] government didn't tell Japan what to do. It just happened." Regarding environmental standards, he adds: "How can you ask Brazil to stop cutting trees down? We've been doing it for years."

Moreover, American companies can look out for their own interests, many people believe. In 1992, Angeles Group had about a 60% domestic market share for three of its four major products, which include furniture, bookshelves, recreational equipment and other items for preschool day-care centers. But because prospects for domestic growth seemed limited, Mr. Kelly decided to look abroad.

Last year, 12% of the company's \$10 million in sales came from exports, and Mr. Kelly expects that percentage to reach 40% within five years. To emphasize the importance of exports to his 100 employees, Mr. Kelly often takes a few to trade shows where competitors are seeking foreign sales.

Recalling the Perot warnings about free trade, David Curry, operations manager at Angeles, recalls a battery company in Mexico, Mo., that did shut down and move to the other Mexico a few years ago. But he isn't outraged. Once, the 36-year-old says, "I would have said we should ship [foreign buyers] everything and take in nothing in return. I guess now I see a bigger picture than that." He describes the bigger trade picture as a two-way street.

Mr. Curry himself benefits from this two-way street. His first job at Angeles, as a welder, paid \$5 an hour; this year, including an expected bonus based on company performance, he could earn \$75,000.

That's the kind of payback Mr. Kelly promised when he first hoisted the warehouse flags. "This is about tomorrow, and if you want to be around tomorrow, you have to participate today," he says.

Fred Siegel on the Future of the Cities

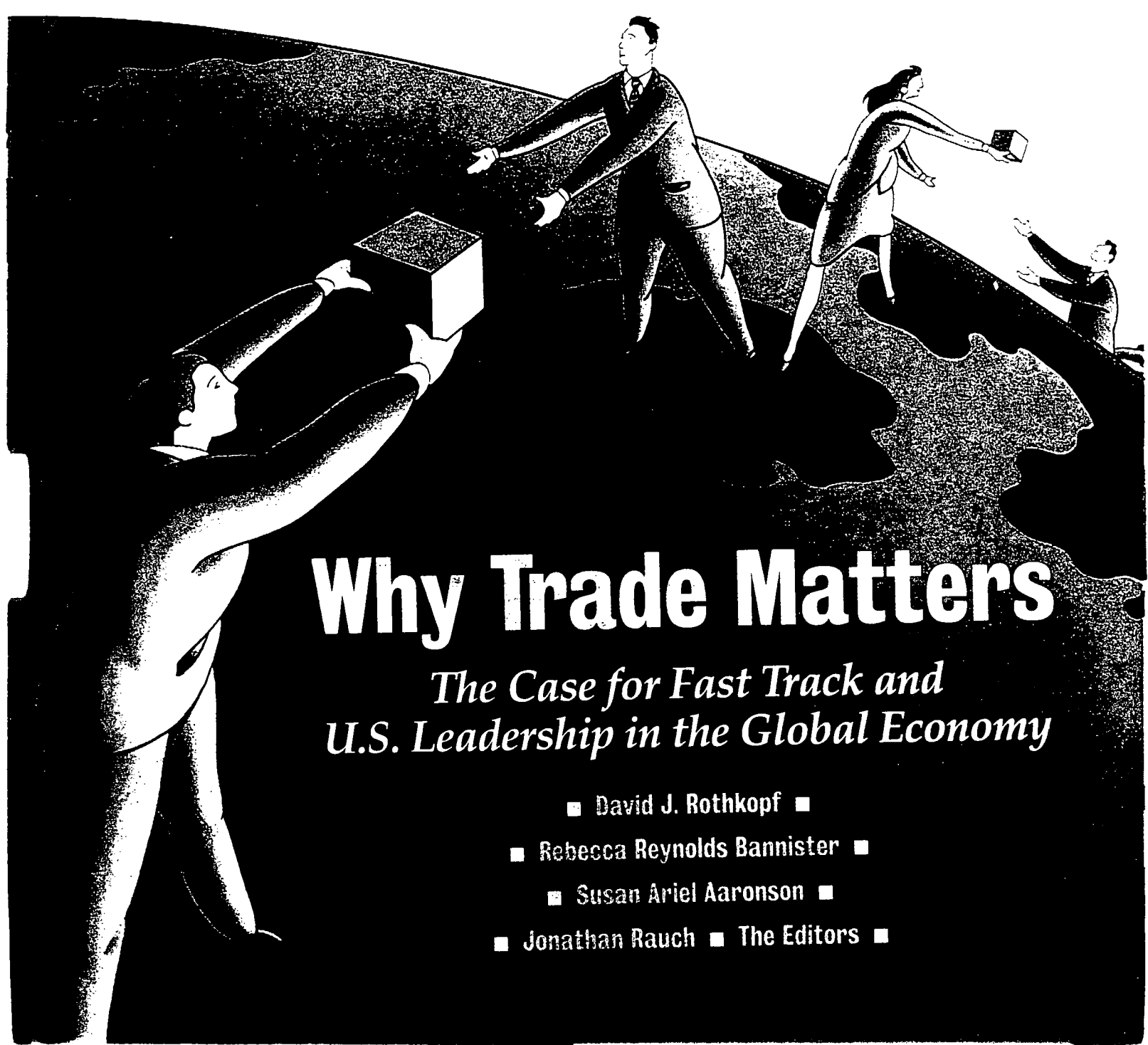
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FAST TRACK AND BEYOND

Congress is undertaking a historic debate on trade and globalization this autumn in the context of the President's request for restoration of "fast track" trade negotiating authority. As heirs to the progressive tradition of support for open trade—the oldest principle of the Democratic Party—New Democrats must recognize that this is a defining moment for their party and for U.S. leadership in the global economy. As we seek in coming months to explode the myths perpetuated by fast track opponents, we also must take seriously public concerns about the short-term costs of economic globalization. Our goal should be to make trade expansion and economic leadership a winning proposition for all Americans.

The granting of fast-track authority is a public policy no-brainer. It simply keeps Congress from unraveling trade pacts after they are signed, and allows this President, like every president since Gerald Ford, to conduct trade negotiations in the same manner as every other head of state.

President Clinton needs this authority now. Key regional trade negotiations affecting our interests in Asia and Latin America are about to begin, with or without us. Sectoral negotiations are pending that will govern trade in agriculture, financial services, government procurement, and information technology—areas in which the United States already leads the world or could benefit immeasurably from expanded markets. Exports are a big component of today's strong economy; since 1992, they have created 1.5 million jobs that pay above-average wages. Fast-track authority is the key to improving that record and sustaining economic growth.

There is no downside to fast track, even for those in Congress who oppose new trade agreements. Under fast track legislation, Congress would retain the right to halt negotiations before they begin, to be consulted as they occurred, and to approve or reject implementing legislation after negotiations had ended.

While fast track does not make trade expansion inevitable, its absence could make it all but impossible for the United States to open new markets for our goods and services—or even to negotiate "fairer" terms of trade for Americans. Other countries have made it clear

that fast track authority is a prerequisite for taking the United States seriously in trade negotiations.

For those concerned about the country's global economic and political leadership, no rebuttal is more convincing than the arguments for fast track. That is why fast-track opponents almost always change the subject and claim that fast track is about something else: NAFTA's performance; NAFTA's expansion to Chile or other parts of Latin America; wage levels and environmental conditions here or abroad; the behavior of multinational corporations; bilateral trade deficits; or foreign governments' human rights violations or anti-American policies—in general, every real or imagined discontent in or with the world.

Although these issues have nothing to do with negotiating authority, trade proponents must recognize that they reflect very real public concerns. Even as we insist that the debate over fast track focus on its actual meaning and urgency, we must simultaneously engage the American people in a broader discussion of trade and globalization and of how America can benefit from shaping its direction and impact.

As Susan Ariel Aaronson's article in our cover package illustrates (page 12), some economic arguments against open trade derive from the old, intellectually discredited creed of protectionism. Trade opponents often claim that U.S. workers cannot compete with lower-wage workers overseas. They focus on trade-related dislocations without examining other possible causes of dislocation or trade's offsetting benefits. They treat sectoral or bilateral trade deficits as signs of defeat and imports as an economic minus. These are among the classic protectionist arguments articulated by the Whigs of the early 19th century and by Republicans for a century thereafter—which now, sadly, are found in the rhetorical arsenals of many liberal Democrats.

New Democrats should respond to neo-protectionists much as our forebears responded to the original protectionists: by attacking the unstated premise that America's trade policies should be dictated by special interests rather than the national interest. This principle is especially important today, when trade opponents seek to subordinate the national interest in a growing

economy and U.S. world leadership to the interests of industries that are not competitive. Rebecca Reynolds Bannister's article on NAFTA (page 10) is a good example of the kind of careful point-by-point refutation we must make of the single-entry bookkeeping and special pleading to which protectionists resort. Bannister also shows how positive NAFTA looks when you examine the full picture instead of the caricature its opponents draw.

But while some arguments keep recycling, other elements of the trade and globalization debate are unique to our times. In the old free trade/protectionist debate, big business was generally viewed as the main beneficiary of and chief proponent for protectionist policies. Today, many Americans perceive big business (especially multinational corporations) as the main beneficiary of open trade policies and U.S. workers as those policies' main victims. In addition, a host of non-traditional issues have been injected into the debate: for the better, as we begin to recognize economic leadership as a defining feature of U.S. global leadership; and for the worse, as critics of foreign government practices seek to hold trade and investment relationships hostage to foreign policy, human rights, or environmental issues.

David J. Rothkopf's article (page 8) argues for a new offensive on trade issues that responds to concerns and misunderstandings about the economic globalization and that takes seriously the implications of trade policy for U.S. global leadership. Trade advocates must change the terms of debate so that Americans are viewed as powerful shapers of the global economy rather than as hapless victims of world trends.

Finally, trade advocates must help create domestic policies that expand the circle of Americans who benefit from the global economy and open trade. Radically reformed job training initiatives are central to this effort—not as a consolation prize for workers dislocated by global economic trends, but as a way to link as many Americans as possible to the opportunities created by trade-generated economic growth.

The GI Bill of Rights for Workers, which would give job training vouchers directly to Americans, is the place to start. Our goal should be lifelong access to career training. In addition, New Democrats must press for effective public support for workers in transition; for portable health and pension resources; for performance-based compensation, profit and equity sharing, and other rewards for employee innovation; and for a new definition of corporate responsibility in a world of markets without borders. All these initiatives can help our nation and all our people compete more successfully in the New Economy.

We are indeed at a turning point. This country can either lead the world that our values and policies have created or become the fearful and reactionary island of stunted hopes that Jonathan Rauch depicts in his vision of an isolationist 21st century America (page 15).

Fast-track negotiating authority is necessary, but not enough, to renew the progressive tradition of open trade and global leadership. As we begin the fight for fast track, we must not forget the greater objective: to convince Americans that the 21st century is another frontier of hope and opportunity if we cross it together.

Midcourse Corrections

A Progress Report on Welfare Reform

When President Clinton signed a landmark bill more than a year ago ending welfare as we knew it, liberals predicted the sky would fall, while conservatives assumed the task of welfare reform was finished. Both were wrong.

So far, welfare roll numbers have plummeted without liberals' dire prophesies of massive social dislocation and misery coming true. But we should view welfare reform not as a fait accompli but as a work in progress requiring constant vigilance and adjustment.

In the recent budget accord, the President corrected several major defects in last year's legislation, such as cuts in aid to legal immigrants and in food stamp funding, while adding money for job placement and health care.

The President and his allies in Congress also insisted that states pay the minimum wage for workfare or community service jobs. Despite claims from conservative welfare analysts and many governors that this step "guts" welfare reform, it is actually intended to ensure that public job programs resemble real work in the real economy as much as possible. Yes, the minimum wage requirement deprives states of a low-cost option for meeting the work targets mandated by last year's legislation, but that's a plus: Washington should keep pressuring the states to move people into private-sector jobs and to treat workfare as a last resort.

Looking ahead, Congress should correct the remaining glaring defect in last year's bill by reinstating food stamps for legal immigrants who work hard and pay taxes as they await citizenship.

But the real "work in progress" remains in the states. They need to take savings from welfare caseload reductions and use them to create a universal child care system for all low-wage workers (*see related article on page 20*), to expand health coverage to these same families, and to create a competitive market for job placement and support. Above all, states must overcome their reluctance to closely track people who leave the welfare rolls. The ultimate measure of welfare reform is not how many people are denied public assistance but how many are given the opportunity to work and support themselves. ♦

RISING ABOVE THE MOMENT

Fast Track and the Future of American Economic Leadership

BY DAVID J. ROTHKOPF

The high-intensity battles over trade expansion these past several years have been noteworthy for their failure to illuminate the issue for the public. Hyperbole, distortion, and emotion have been the weapons of choice. The outcome has been voter confusion and fitful progress on the path to continued U.S. economic vitality.

The forces that recognize that America cannot opt out of historical transformations such as the emergence of the global economy ultimately won these fights. But the casualties were high. Truth, of course, was a victim. Both sides offered creatively interpreted statistics and visions of euphoria or gloom that have made their way into the public consciousness as facts. Many proponents of sound trade policy were victims, too; the battles took a toll on their political will to undertake new legislative initiatives.

As a result, President Clinton has been denied the ability to negotiate new trade agreements for most of his five years in office, even though such agreements are crucial to the well-being of virtually all Americans.

In coming months, Congress will debate whether to grant the President that authority in the form of so-called fast track legislation. Such legislation would allow the administration to negotiate new trade deals and then present them to Congress for an up-or-down vote. Approval of fast-track negotiating authority is critical because it sends negotiating partners a necessary promise of good faith: They can be assured that deals hammered out over months or years won't die the death of a thousand amendments.

Once again, critics of such legislation will attempt to distort its meaning. They will seek to make fast track a referendum on the North American Free Trade Agreement or to define it in terms of a single contemplated agreement, such as a bilateral free trade pact with Chile. They will seek to add riders to the bill that limit the President's authority on trade issues other than those covered by fast track or that cloak protectionism beneath the mantle of environmental or labor concerns.

With luck, the proponents of American economic growth will not be tempted to respond in kind or with inflated rhetoric. For in this fight, the facts are the most

compelling advocates for the policy.

The most important fact is that we have the lowest barriers to trade in the world. Other countries have higher barriers. Therefore, without new agreements lowering their barriers to our goods and services, they continue to benefit and we continue to suffer. Furthermore, of course, 95 percent of the world's consumers live somewhere other than America (the vast majority in countries with higher trade barriers than our own).

Despite the concerns of some in the labor movement, the reality is that most U.S. manufacturing employees work in plants that export. Over 1.5 million export-related jobs have been created in the United States in the past four years alone. These jobs pay 10 percent to 15 percent more than non-export jobs. Export firms expand employment nearly 20 percent faster than other firms. Moreover, productivity in export firms is one-fifth higher than in non-export firms. Companies that export are 10 percent less likely to fail than others.

It is also worth noting that NAFTA, the last major trade agreement reached under fast-track authority, has been a success. (See related article on page 10.) That said, the coming fast track vote should not be portrayed as a referendum on NAFTA. Fast-track authority is essential to progress on a wide range of pressing trade issues: regional expansion in the Americas, across the Pacific, and across the Atlantic; bilateral deals beginning with Chile and New Zealand; another round of World Trade Organization negotiations; and sectoral negotiations regarding agriculture, information technology, and financial and other service industries.

Every modern president since Gerald Ford has been granted fast-track authority. It stands to reason that Bill Clinton should be given the same tools as his predecessors. The nature of the times underscores this. If the United States doesn't have fast-track authority it cannot negotiate agreements. If we cannot negotiate new agreements, our competitors will. The emperor of Japan, the president of France, and countless Asian and European ministers have not been visiting South America for the past few years to learn the *lambada*.

There are many other compelling reasons for Congress to approve broad fast-track legislation—including the fact that more than half of all Americans support such a vote and that nearly eight out of 10 support free trade, according to a recent poll by presidential pollster Mark Penn for the Democratic Leadership Council. Nevertheless, winning such authority is by no means a sure thing.

Why is this? How could it be, after 60 years of bipartisan support for trade liberalization and during America's greatest economic prosperity, that there is a debate over whether we should give the administration the tools it needs to ensure that U.S. businesses and workers are treated fairly in the global economy?



If the fast-track legislation itself is too narrow, too short-term, or otherwise limited, the debate is sure to drag on.

A New Vocabulary of Trade

One reason for this prolonged debate has to do with the way the NAFTA campaign was waged. NAFTA's proponents got off to a slow start during the run-up to the vote and allowed the opposition to define the debate's terms. Opponents such as H. Ross Perot cast the matter in terms of jobs. NAFTA, they said, would lead to a massive shift of productive capacity south of the border, and with that capacity would go the jobs of American workers.

Of course, that never happened. The U.S. unemployment rate is now at its lowest in decades, so it is impossible to argue that NAFTA has produced major dislocations. The damage to public perceptions was done, however. Americans insecure about their jobs came to equate trade—the creator of more U.S. jobs than perhaps any other single factor this past decade—with the “export” of jobs. Advocates of fair and open trade lost sight of the real goal—the source of tomorrow's jobs. For the most part, proponents starting playing defense.

That mistake must be corrected. It's time for proponents of fair and open trade to launch an offensive worthy of their position's strength and importance. They must begin with the basics: a reminder that the American dream is about creating better opportunities for our children and not about preserving yesterday's way of life.

In short, we need a new vocabulary of trade. This language must eschew the “winkspeak” of economists and address the central questions of America's future, our competitiveness, and how we can best maintain our leadership into the next century. It must confront and expose racism, protectionism, and demagoguery. Finally, it must move us past the divisions of recent years and into an era of rekindled bipartisan commitment to preserving our status as the world's undisputed economic superpower. We must seek a permanent end to the fractious trade debate of the 1990s.

In addition, we need a revitalized U.S. trade policy. The incremental approach advocated by many well-meaning officials cedes too much to the opponents of trade liberalization—the *de facto* opponents of U.S. growth. If the debate about U.S. trade policy is reduced to the pros and cons of a bilateral agreement with Chile or New Zealand, then opponents will have succeeded in taking off the table the larger steps that are possible and would benefit us most. Similarly, if the fast-track legislation itself is too narrow, too short-term, or otherwise limited, the debate is sure to drag on. And that will continue to sap our ability to strengthen America to compete in the global economy.

The Imperatives of Globalization

The advent of the global economy may be as important a change as the onset of the Industrial Revolution. All such changes produce dislocation and fear. When the steam-driven loom came into being in the early 1800s, the Luddites fought it fiercely. They worried about the consequences for hand-loom workers without considering the jobs to be created as a consequence of the innovation. Today's Luddites from the far right and left are equally shortsighted. But the concerns and fears they play upon should not be discounted.

Globalization will produce significant changes. The introduction of more than a billion workers from emerging economies into the global labor pool will have a major impact. Countries such as ours will have to decide whether to let them into the global economy or to keep them out. Letting them in is likely to produce some dislocation at home. But keeping them out is likely to produce massive unrest in parts of the world in which political instability and weapons of mass destruction raise the stakes dramatically. Furthermore, keeping them out is the Luddite position, a vain attempt to apply political pressure against the tide of history. Governments did not legislate globalization into being; it is the inevitable product of technological progress. Governments can struggle against it, but history shows their efforts will be futile. The race will go to those nations that advance with the tide rather than those that struggle against it.

Governments can and should do more to minimize the dislocations trade may bring—particularly enlightened centrist governments which recognize that “markets do not have consciences.” Societies must create training programs and other mechanisms to compensate for the marketplace's tendency to value efficiency over social equity and compassion. The trick, of course, is to create mechanisms that are not such a drag on the econo-

my that they create a bigger problem than they solve. Without such programs, though, critics of trade liberalization will find adherents despite the weight of the evidence against their positions.

Congress, the President, and Foreign Policy

Fast-track opponents come in all political stripes, and they will use a variety of techniques to stymie or dilute the legislation. The left will argue that the law should require all negotiations to include specific environmental or labor provisions, the so-called green and blue issues. The new unholy alliance of liberals and conservatives may press for an amendment requiring congressional approval for China's accession to the World Trade Organization. This move would be consistent with Congress' broader tendency in recent years to assert its role in the management of trade policy specifically and foreign policy more generally. Another way Congress might seek to assert its authority in such matters would be to limit the duration of the President's fast-track negotiating authority to one or two years.

Such constraints on presidential power are made

more serious by the changing nature of American foreign policy. The end of the Cold War greatly diminished our political leverage over allies and those nations that might have required our protection. Our military leverage has also diminished for many reasons, not the least of which is our increased unwillingness to take risks unless compelling national interests are involved (which are fewer in the absence of a communist threat). These trends make our economic leverage more important than ever. Offering the large emerging economies in Latin America and Asia the carrot of improved access to our market, the world's greatest, is increasingly the best means of influencing their behavior.

Denying the President the ability to freely negotiate trade agreements would severely limit American influence overseas at a time when options are few. While the economic interests of average Americans should be enough to motivate passage of broad fast-track authority, these foreign policy concerns add great weight to arguments in favor of swift approval. Yes, sectoral agreements in agriculture, information technologies, or financial or other services will strongly enhance U.S. competitiveness in areas in which we are a world leader.

The NAFTA Success Story

BY REBECCA REYNOLDS BANNISTER

When the North American Free Trade Agreement was negotiated, progressives endorsed it as a vital tool for taking control of our economic future. Three years later, NAFTA is fulfilling its promise. Our trade relations, economic competitiveness, overseas investment, and consumer buying power were all strengthened by the pact. The agreement was also a defining moment in U.S.-Mexico-Canada relations, securing and advancing our bonds with our North American neighbors.

NAFTA set a new standard for future U.S. trade agreements in the Americas. It was our first agreement with a less-developed country to address not only merchandise trade but a host of other crucial issues: services, investment, sales to governments, intellectual property protection, transparency of rules for trade and dispute resolution, and labor and environmental standards, to name a few. Mexico and Canada already have patterned their free trade agreements with Chile and other countries on NAFTA. Indeed, the prospect of U.S. trade with other emerging markets without such guidelines, safeguards, and predictability is alarming.

By nearly every measure, NAFTA is working:

- Trade and investment throughout North America have increased.

- North America's regional economy in 1997 is expected to grow by 3.5 percent, a much higher growth rate than today's 2.7 percent average for the rest of the industrialized nations.

- U.S. exports to Mexico and Canada combined reached \$191 billion in 1996, a record.

- Mexico and Canada are the United States's top export markets (Mexico surpasses Japan even though its economy is one-twelfth the size of Japan's).

- U.S. small businesses and large firms alike have been given secure market access to Mexico as well as methods for resolving commercial and investment disputes with relative transparency and according to established procedures.

- Despite predictions of a "giant sucking sound" from south of the border, NAFTA has not produced a deleterious flight of American investment or jobs.

The United States today is a vibrant, dynamic, and highly successful global competitor. The country has kept its lead in exports, a testimony to its strong competitiveness in providing products and services around the world. We enjoy our lowest unemployment rate in 23 years, low inflation, lower consumer prices due in part to trade, and impressive economic growth.

Clearly, NAFTA has not hurt the U.S. economy.

but they also will enable us to strengthen relations with key partners and to work to eliminate irritants such as growing trade deficits that may encumber vital strategic relationships with other nations.

The outcome of the coming debate over the approval of fast-track legislation will say volumes about the direction of the Democratic and Republican parties, about the future of bipartisanship, about the nature of the presidency and the role of Congress in foreign policy, and about whether America has the will to continue to lead into the coming century. We must enter this debate very seriously. We can ill afford half-solutions that offer face-saving victories today but jeopardize national interests.

Advocates of broad presidential fast-track authority should build their arguments on a solid foundation of strategic goals:

- ♦ America is committed to strengthening its position as the world's economic leader in the era of globalization. This means maximizing our competitiveness by all available means, from market-opening measures through improved training and education for America's workers.

- ♦ America is committed to eliminating all inequities

in the global trading system by advocating the elimination of *all* tariff and non-tariff barriers to trade by a date certain, such as the year 2020. This is the ultimate and achievable goal of our efforts to lead the world toward market standards comparable to our own and to improve the American quality of life.

- ♦ America is committed to ending this troubling distraction and therefore should implement broad, *permanent* fast-track authority for all American presidents.

Finally, if we really are concerned about trade imbalances and their cost to the United States and our international relations, we must recognize that the most fundamental way to address them is to increase America's savings rates—which could be done in large part through progressive, meaningful entitlement reform. ♦

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Our economy now creates as many jobs in a month as the country lost over three years because of NAFTA. If we look at the sectors of the U.S. economy NAFTA negotiators targeted, we find an important and positive story that should be told. Key industries such as autos and electronics and the service sector have benefited from the agreement.

NAFTA was designed to lock in market access for U.S. businesses, and it has done the job admirably. Despite Mexico's economic crisis in 1995, trade flows continued to grow because Mexico was prevented from imposing import barriers on its NAFTA partners, even as it increased tariffs on products from other nations.

U.S. imports from Canada and Mexico increased after NAFTA. In fact, our overall trade in goods with these countries accounts for one-third of our trade with the world (amounting to \$421 billion in 1996). Mexico's 1995 recession and the U.S. economic boom resulted in a U.S. trade deficit with that country, which NAFTA critics equate with displaced U.S. production and lost jobs. The critics are wrong. Imports provide our producers with essential inputs (such as energy), fill market niches abandoned or not supplied by U.S. producers, spur innovation in our industries, and often create and satisfy new consumer demands. Rather than being a sign of U.S. economic weakness, imports indicate that our economy is robust.

Investment in North America has increased since NAFTA. Though NAFTA critics say otherwise, American foreign investment does not imply forgone investment at home; indeed, total U.S. investment in

Mexico averages less than 1 percent of our domestic investment in plant and equipment. Furthermore, by investing in Mexico or Canada, U.S. companies can produce products that enjoy special market access to Chile and other Latin American countries, thanks to Mexico's and Canada's separate free trade agreements with those nations.

Critics of NAFTA and of U.S. trade with developing countries point to Mexico's troubles as a reason for the United States not to enter into such agreements. But if the United States fails to lock in market access to these countries, we will miss important opportunities. Low- and middle-income countries are the leading source of U.S. export growth, increasing 9 percent in 1996.

The United States needs to extend the principles embodied in NAFTA to its trade with the rest of the hemisphere. By forging new hemispheric trading partnerships based on NAFTA's model, we would gain leverage in the World Trade Organization to lead the rest of the world to open and fair trade.

To do this, Congress must give the President the tool all previous presidents have wielded to assert U.S. leadership in the world marketplace—fast-track trade negotiating authority. Without it, the United States is not welcome at the bargaining table. ♦

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THE TRUTH ABOUT TRADE

A Historical Rebuttal of Protectionism

BY SUSAN ARIEL AARONSON

At first glance, the congressman from Kentucky and the congressman from Missouri don't seem to have much in common. The Kentuckian, Henry Clay, struggled from the 1820s to the 1850s to foster compromise among America's competing political and economic interests. The Missourian, Richard Gephardt, is the eloquent leader of the House Democrats.

Although one man lived at the dawn of the Industrial Age and the other lives on the cusp of the Information Age, both concluded that protection could preserve American prosperity and sovereignty. "Great Britain protects most her industry, and the wealth of Great Britain is consequently the greatest," Clay observed. "Spain most neglects the duty of protecting . . . and Spain is one of the poorest." He thought tariffs could not only nurture American industry but also fund a national system of roads and bridges. In this way, Northern producers could secure the Southern and fledgling Western markets for their manufactured goods and commodities. National harmony and economic prosperity would result.

Gephardt has an equally complex and passionate vision of protection. Earlier this year, he argued that "we must not negotiate away our jobs and our living standard based on outdated theories . . . about trade and international economics. . . . Many Americans see themselves as victims . . . of trade agreements."

Today as in Clay's age, some Americans argue that free trade would lead to massive unemployment and social upheaval. The only solution, they think, is protectionism. Yet the world has changed dramatically since Clay's times, and there is no evidence that protectionism preserves jobs or creates economic opportunities over the mid to long term.

For most of our history, Americans equated protection with commercial policies such as tariffs, exchange controls, and quotas. But this definition is out of date and doesn't reflect global reality. As traders, economists, and government officials have learned, barriers to trade now include a wide range of policies that were once considered solely domestic, including health, safety, and environmental standards; investment and procurement regulations; and antitrust policies.

Ideas, technology, and capital are global today, but institutions, political allegiances, and cultures remain national. Giant global corporations produce much of the goods and services Americans consume. These corporations can move jobs and operations around the world,

eroding the power of national governments to protect the economic and social welfare of their citizenry. As in the 18th century, some Americans have called on government to erect protectionist walls of tariffs, quotas, or regulations. Protectionism, however, is not the answer. If we are to thrive in the 21st century, our best hope is to make the system of rules governing the world economy more equitable, transparent, and effective.

The Early History of American Protection

Protectionists have argued that the United States grew strong behind tariff walls. However, U.S. policymakers have always mixed protectionist and free-trade policies. This mix has changed over time, reflecting political and economic conditions.

Throughout most of American history, the debate about trade centered on tariff protection. From the moment the founding fathers first set quill to parchment, Americans have called on government for protection. America's founders were initially reluctant; they generally agreed with Thomas Jefferson that "free trade with all parts of the world" was a "natural right." But both Federalists and Jeffersonian Democratic Republicans concluded that although open markets were in the American interest, tariff walls could help nurture a diversified and healthy economy. Tariffs had an additional addictive side effect: They provided revenue to finance government without seeming to tax citizens. As a result, protection spread to many sectors. After the War of 1812, legislators learned it was simpler to compensate those injured by tariffs by protecting them too, rather than by reducing the protection given to the first party.

But not all Americans favored this reliance on protection. Southern and Western farmers felt doubly burdened by tariffs. First, they paid higher prices for the goods they consumed. Second, because our trading partners usually felt compelled to match our tariff policies, the farmers' products often were less competitive in foreign markets. Tariffs soon affected the outcomes of elections and helped separate Americans into two political parties. By the end of the 1850s, the Democratic Party generally argued that tariffs should exist "for revenue only" while the new Republican Party argued for a protective tariff to promote industry.

Until the Civil War, the tariff issue remained unresolved, intersecting with continuing disagreements over

slavery and the appropriate role of government in the economy. After the war, Republicans led the nation and, not surprisingly, protectionism spread to even more sectors. Although protectionism was essentially "corporate welfare," many policymakers as well as the public believed protection preserved the nation's relatively high standard of living. Workers thought tariffs brought them higher wages; farmers believed that tariff walls protected them from foreign competition in the home market.

A Change in Attitudes

Attitudes toward tariffs began to change as the American economy became more urban, industrial, and diverse. By the 1880s, some Americans were angry that federal and state policies seemed to benefit monied interests instead of small farmers and workers. Even the new American Federation of Labor was no longer convinced that high duties protected high wages. A diverse group of Americans called for tariff reform. Some business leaders recognized that they could capture foreign markets and achieve further economies of scale and scope if the United States offered the carrot of lower tariffs for reciprocal tariff reduction. At the same time, some progressive reformers concluded that the tariffs were "the mother of trusts," helping many of America's ever-bigger businesses reap higher prices for their products and gain greater power to use against workers, consumers, and smaller competitors.

True tariff reform, however, came only after Woodrow Wilson and the Democrats captured the White House and Congress in 1913. The Underwood Tariff lowered duties substantially. In 1916, Congress passed an income tax, making fiscal policy less regressive and finally breaking the link between tariffs and revenue. Yet this important policy change did not destroy the public perception that tariffs could protect Americans from unemployment.

Ever so gradually, tariff protection spread in the 1920s. The Roaring '20s were in fact a time of major economic dislocation for many Americans, including farmers. Thus, Congress imposed high duties on about 40 agricultural products in 1921 and added protection for manufacturers in 1923. The Tariff Act of 1930, commonly known as the Smoot-Hawley tariff, raised rates on many different types of manufactured and agricultural products, even products the United States did not produce.

But Smoot-Hawley could not save jobs or spur economic growth. The U.S. economy was in trouble and began to unravel in 1929. With the stock market crash, many banks failed, and credit for lending and investment shrank. As investment declined, unemployment rose, and economic stagnation spread throughout the world.

In 1933, Franklin D. Roosevelt and a Democratic Congress began several years of policy experimentation. With unemployment as high as one-quarter of the work force, many Americans were less certain that markets would "correct" this problem. In 1934, Congress gave

Roosevelt limited authority to negotiate bilateral trade liberalization agreements to expand global markets and thereby create jobs. However, this experiment was not expanded until 1947. Congress gave President Harry S. Truman the authority to further liberalize trade through multilateral trade negotiations under the aegis of a club called the General Agreement on Tariffs and Trade.

In its 50-year history, the GATT has sponsored eight multinational negotiations to reduce trade barriers. In the most recent round, members of the GATT (now the World Trade Organization) agreed to rules governing the potential trade distortions of a wide range of domestic policies, such as regulatory policies, subsidies, and tax systems. Thus, the GATT/WTO system not only encourages trade, it governs how nations protect their citizens, producers, and consumers.

Although Henry Clay might be baffled by many of the goods and services Americans make and consume today, he would feel perfectly comfortable with contemporary protectionist arguments. What modern protectionists don't say, however, is as interesting as what they do say. They rarely base their case on the efficacy of protection—whether it really preserves or creates jobs or opportunities. Consider the following common protectionist arguments:

- ♦ *Jobs and wages.* Throughout much of America's 221 years, U.S. workers have been relatively well-paid because labor has been scarce compared to other inputs such as resources and capital. Yet protectionists have argued that U.S. workers cannot compete with foreign workers who are paid less.

Economic history reveals that, in general, U.S. workers have reaped a growing share of the fruits of their labor because U.S. workers have been more productive than their overseas competitors. However, in recent years wage inequality has increased. And real wages have failed to keep pace with worker productivity since 1983, although total compensation has risen modestly. Protectionists have blamed trade for these trends. But the large increase in the importance of trade to the United States occurred in the 1960s and 1970s, while wage inequality increased in the 1980s. Moreover, most of the goods and services Americans consume are produced in other high-wage industrialized nations such as Canada, Japan, and Germany. Today, the United States produces approximately 25 percent of the world's traded goods and services with only 5 percent of the world's working population, including some of the highest-paid workers.

Protectionists have also argued that freer trade will lead to unemployment. In his challenge to the North American Free Trade Agreement, business leader H. Ross Perot claimed it would result in a "great sucking sound" as jobs moved across the border to Mexico. Some Americans did lose jobs—as of July 1997, the Labor Department had certified that 128,303 workers had become unemployed because of NAFTA. However, most analysts believe that NAFTA has encouraged employers to

hire a commensurate number of employees as a result of new or expanded business. Moreover, in July, unemployment stood at 4.8 percent—its lowest level in 23 years.

♦ *Equity.* By definition, protectionism is inequitable, favoring some communities and producers over the general public. Protectionists export the issue of equity, arguing that foreigners are treating Americans unfairly and that therefore the federal government should intervene to protect U.S. producers from unemployment or lost opportunities. But is it equitable to favor special interests at a cost to most taxpayers and consumers? Moreover, does government responsibility for equity end at the U.S. border? Is it equitable for U.S. policymakers to deny imports, jobs, and a potentially rising standard of living to citizens of other nations?

♦ *Unfair trade.* Protectionists argue that many of our trading partners are unfair traders. To a great degree, what is considered fair and unfair reflects differences in economic, social, and political cultures as well as economic development. Clearly, some nations do dump their products here at a price lower than the domestic price, subsidize favored industries, or devalue their workers' contributions to production. But since 1947, the United States has had recourse under the GATT/WTO system to deal with many of these examples of "unfair" trade. When America perceives that other nations are playing unfairly, we can retaliate or bring a trade dispute to the WTO for settlement. And America is the big winner in such mediated settlements. Since the inception of the WTO, the United States has won the bulk of its disputes whether defending its own practices or challenging those of its trading partners.

♦ *Sovereignty.* As noted above, our founding fathers protected infant industries to maintain a strong, independent nation. But protectionists have broadened this argument, stressing that protection is the government's social responsibility. Some note that during the Uruguay Round of trade negotiations, nations agreed to rules governing health and safety standards that may distort trade. Protectionists assert that this would give "international trade bureaucrats" authority to nullify U.S. laws and regulations, making American sovereignty meaningless.

Although America must adjust to global economic interdependence, America's ability to control its economic and political destiny is unaffected. For example, if an American trading partner challenged U.S. environmental regulations protecting dolphins, and if such regulations were found to be *de facto* trade impediments in a dispute mediated by the WTO, the United States would lose none of its policy options. We could ignore the WTO ruling and risk retaliation by foreign trading partners. We could change our laws or regulations. Or we could keep the laws or rules while making commensurate trade concessions to compensate the complaining nation. Either way, the United States would retain its sovereignty because U.S. citizens (elected and appointed officials) would choose the policy response.

A corollary of the sovereignty argument is the claim that the GATT/WTO system will lead to a massive worldwide reversal of environmental, worker, and consumer protections. But global economic integration can also spur producers to compete in a "race to the top." For example, California and Germany have helped drive up U.S. and European Community regulations, respectively. As political scientist David Vogel has noted, "When rich nations such as the United States and Germany enact stricter product standards, their trading partners are forced to meet these standards . . . to maintain export markets." This process often encourages consumer or environmental organizations in the exporting country to demand similar standards at home. Thus, national standards can be strengthened as integration increases.

A Progressive Case for Freer Trade

It is interesting to note that in 221 years protectionists have been unable to prove that protectionism actually preserves jobs and creates opportunities. One hundred years of economic research shows why. Frank Taussig, a noted economic historian and the first head of the International Trade Commission, was unable to conclude whether tariffs benefited America's economic growth. More recently, several economic historians (including Nobel Prize winner Robert W. Fogel) who have studied whether tariff protection benefited the iron, wool, and cotton industries have also reported inconclusive results.

Economists generally agree that protection can help certain sectors. But there is no evidence that maintaining most modes of protection would improve the economic welfare of most Americans or the economy as a whole. In 1995, the International Trade Commission reported that if the United States had reduced most of its overt trade barriers (not including domestic policies such as regulatory standards) in 1993, the U.S. economy would have gained approximately \$15.5 billion. A 1994 study by the nonpartisan Institute for International Economics found that easing protection would cost the jobs of some 192,000 workers in 21 highly protected sectors. But that same study also concluded that protecting these workers costs all Americans on average some \$170,000 per year, far more than we would spend to retrain those workers or maintain their incomes.

The challenges of the dawning Information Age are worlds apart from the challenges of the Industrial Era. Accordingly, we should not rely on 19th-century ideas to fashion solutions to 21st-century problems. A rising standard of living for the world's people depends on how we govern the world's economy. Instead of throwing bricks or erecting protectionist walls, Americans should work to shore up the foundations of the GATT/WTO system. ♦

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Zions First National Bank

SUNDAY, APRIL 27, 1997

The Washington Post

... Now on to Trade

NOW THAT Congress has ratified the treaty banning chemical weapons, it's time for President Clinton to move on to the next big foreign policy battle: trade. To maintain the momentum he established during his first term toward breaking down global trade barriers, he must seek congressional authorization for further trade talks, and soon. As in the chemical weapons fight, he will need bipartisan support. But the politics in this case are, if anything, more complex, because the Democrats are as divided as the Republicans on the issue.

Free trade is good for the U.S. economy. It helps create jobs that tend to be higher-paying than average. Exports have helped revive the U.S. manufacturing sector, which not so many years ago was widely portrayed as terminally rusting. New agreements, if achieved, will increasingly play to U.S. strengths in agriculture, high-technology products and services ranging from insurance to telecommunications. Pursuing such agreements particularly makes sense because the American economy already is so open; little is to be lost, and much is to be gained, from pressuring other countries to approach the U.S. level of openness.

That can't happen unless Congress gives Mr. Clinton what's known as "fast-track" negotiating authority. This would allow his representatives to negotiate treaties—with congressionally approved nations and on congressionally approved subjects—and then submit those agreements to Congress for a yes-or-no vote. Otherwise—if Congress could reject some provisions, accept others and seek to amend still more—no other country would ever make concessions in trade talks, because none could be

sure the U.S. administration could deliver on its side of the bargain. Congress has given such authority to every president since Gerald Ford.

This Congress, though, is leery. Some of the more nationalist Republicans are suspicious of any international deal. But the greater problem may lie with Democrats, who want to mandate strict labor standards—with punitive sanctions for any breaches—as part of any trade agreement.

Jobs migrating overseas is a real issue. The U.S. economy as a whole gains from globalization, but many individual workers lose out. The main response to that problem has to be domestic: retraining to prepare workers for better-paying jobs, and improved education to create the kind of labor force that will attract long-term investment. At the same time, the United States should work to ensure that other countries fulfill their pledges to enforce decent working conditions, outlaw forced and child labor and permit unions and collective bargaining.

But the kind of labor-standard mandates some Democrats are seeking will simply kill any trade deal, because no developing country will accept them. Then everyone loses. American workers lose out on high-paying, export-related jobs. Companies likely to migrate overseas will probably go anyway, and any leverage the U.S. government might achieve through trade deals that include less stringent labor provisions would be lost.

To some extent, all of this may come down to whether Vice President Gore has the moxie to stand up for free trade against House Majority Leader Dick Gephardt in their presidential election battle already underway. It will be an interesting test of leadership.

The New York Times

MONDAY, SEPTEMBER 8, 1997

Mr. Clinton Deserves 'Fast Track'

President Clinton begins an important battle with Congress this week for renewal of "fast track" authority, the right to submit trade agreements to Congress for a speedy vote without amendments. Without fast-track protection, countries will not negotiate trade accords with Washington for fear of endless revision. Not surprisingly, protectionist forces within both parties would be happy to block the no-amendment rule, even though every President over the past 20 years has used the rule to open up foreign markets and also bring down prices for American consumers.

The Administration needs fast track to complete negotiations within the World Trade Organization on opening markets to foreign-provided services, tightening copyright protections and prying open government contracts to bids by foreign companies. Fast track is also needed to negotiate trade agreements with Chile and other South American countries. They are already negotiating deals with Europe, Mexico and Canada that would give exports from those countries favored access.

Opponents ranging from isolationists to pro-union liberals indict trade pacts with environmentally lax and low-wage countries. The claim is that these countries steal American jobs and drive down living standards of American workers. But trade itself does not create or destroy jobs. The American economy will operate near full employment as long as Federal Reserve and budgetary policies remain sensible. Trade does shift jobs from apparel and other low-paying industries into high-paying export industries. The transition can be rough, but the long-term benefits are substantial.

Nor are low foreign wages the scourge that the forces led by the House majority leader, Richard

Gephardt, proclaim. Low wages largely reflect low productivity, providing no net benefit to foreign manufacturers. Nor would higher foreign wages help American companies. Rising production costs would be offset by a falling exchange rate, leaving the net cost of imports to American buyers largely unchanged.

That said, the Administration goes too far in claiming that trade helps everyone. The influx into the United States of clothing and other goods produced with low-skilled labor has modestly pushed the wages of unskilled workers further behind the wages of skilled workers. But rising inequality should not be confused with falling living standards. After taking account of lower prices for imported goods and the availability of jobs in a fully employed economy, very few Americans actually lose.

Though labor and environmental conditions are rarely related directly to trade, the United States should condition trade pacts on a country's willingness to adopt agreements that provide basic international protections, like prohibitions on child labor and rights for union organizers. As in the trade accord with Mexico, Washington ought to insist that countries, like Chile, strictly enforce their own environmental laws.

Bill Archer, chairman of the House Ways and Means Committee, proposes a reasonable compromise that would allow the Administration to incorporate into the text of a fast-track accord labor and environmental conditions that directly affect trade in specific products. The details remain to be worked out, but the Archer plan offers an opportunity to fashion a sensible fast-track plan that can be made acceptable to Democrats.

Los Angeles Times

FRIDAY, FEBRUARY 28, 1997

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Time Is Right for Chile Accord

Congress should back quick action on a NAFTA-style accord

Once again, as he did in December of 1994 at Miami's Summit of the Americas, President Clinton has put Chile on the U.S. trade agenda. This time, we hope, he'll be able to convince Congress to move promptly on the issue and bring Chile into a NAFTA-type trade agreement. Chile has long been considered the likeliest South American candidate for such a role.

Clinton needs so-called fast-track authorization to move on this opportunity to expand hemispheric trade, a goal we support. The time seems right, but an accord will not happen without full and thorough debate on the proposal within Congress and among interested parties throughout the United States.

Ultimately the White House would put a package together on an enhanced trade relationship with Chile. Congress would have the final say, and, if it approves, there will be no fiddling with the pact after that point, avoiding the last-minute changes that tend to torpedo

deals like this.

The Chileans have said they are ready to negotiate an agreement. But the problem for President Clinton is a perception among many Americans that NAFTA, the free trade bloc consisting of the United States, Mexico and Canada, is not working to U.S. benefit and thus this nation should not enter into a pact with Chile. And some sectors simply don't want to compete in a free trade zone.

But the U.S. economic system is based on the principles of free trade, and in today's global economy the fewer the barriers the better the prospects. In a fairly structured agreement, increased trade means more jobs. NAFTA—which some observers say continues to pose open questions—remains the test of that proposition. A deal with Chile might provide a clearer result. Congress should grant the president the fast-track authorization he needs to shape a package for Chile and bring it to a vote.

Chicago Tribune

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Tuesday,

Grant fast-track authority fast

In his radio address last weekend President Clinton vowed a full-scale campaign to renew the fast-track trade negotiating authority Congress allowed to expire three years ago. Congress should move on the president's request at once.

Every administration since 1974 has enjoyed the essential tool of fast-track negotiating authority. It commits Congress to consider and vote, without amendment, on trade deals within 90 days of their submission by the president. Its benefit is obvious: No foreign government is inclined to enter into trade negotiations with the U.S. only to have Congress change the agreements later on.

Congress failed to renew fast-track authority in 1994, following the bitter political debate over the North American Free Trade Agreement. Now lingering bitterness from labor unions, environmentalists and their Democratic supporters in Congress has stalled the president's bid to regain the power.

As a result, Clinton has not been able to honor promises to bring Chile into NAFTA and work toward a hemispheric free-trade zone by 2005. Meanwhile, some European and Asian competitors have moved in to close their own treaties with some Latin American countries.

U.S. labor unions fear competition from cheaper foreign labor while environmentalists fear ecological degradation by Third World countries with lower pollution standards.

And as the presidential hopefuls begin to move into position, House Minority Leader Richard Gephardt of Missouri is reaching for the baton to lead the chorus of free-trade opponents and position himself against Vice President Al Gore in the Democratic primaries.

Yet the dire consequences predicted by NAFTA opponents—most notably Ross Perot's "sucking sound" of jobs being siphoned off by Mexico—have not materialized. An analysis released by the Clinton administration in July concluded that NAFTA had had a "modest positive effect" on the U.S. economy.

NAFTA, in fact, has been more successful than that. It has accelerated trade between its three partners—the U.S., Mexico and Canada—by 44 percent. There is no concrete evidence that the U.S. has suffered a net loss of jobs from NAFTA or that it would do so if Chile joined the pact. Indeed, in the wake of NAFTA's approval, the U.S. has enjoyed employment and economic growth envied by much of the world.

Free trade means jobs and opportunity. Why is Congress standing in the way?

Friday, August 29, 1997

THE MONITOR'S VIEW

*"First the blade, then the ear,"**then the full grain in the ear."*

NAFTA II: Bill vs. Dick

DRAMA in the making: A struggle touching some of the most important issues of our times, with a cast of top political stars, has been taking shape during the August-September run in Washington.

The drama: President Clinton's plan to expand the North America Free Trade Agreement (NAFTA) to Chile - and other hemisphere nations.

The plot: Clinton twists arms among Democrats in Congress to win votes for so-called "fast track" legislation. He'll have support of many Republicans. But he needs more backing from his own party, whose labor union funders plan a major assault on NAFTA expansion.

The lead characters: Bill Clinton, seeking credit in history books as the leader who jump-started hemispheric trade. Al Gore, faithful sidekick and aspiring successor, who needs to woo activist labor leaders. Dick Gephardt, chief congressional foe of NAFTA and its expansion, and a big beneficiary of labor support. Also a frequent opponent of Clinton and a future rival to Gore for the presidency.

The big issues: Jobs and wages of US union members. Consumers' price tag for retail goods, food, cars, household equipment. Also environment protection, immigration, drugs.

The action: Democrat majority leader Gephardt flew south in mid-August to visit Chile, Argentina, and Brazil. Explored trade, wages, working conditions, factory pollution. Gathered ammunition for congressional debate on super-NAFTA. Made pilgrimage before Clinton, who will visit same nations later, with much greater fanfare.

The plot twists: Clinton will probably ask Congress in mid-September for fast-track trade authorization. He wants it for other trade negotiations as well. Fast track allows Congress only a yes-or-no vote; no pet amendments. Despite the president's lean toward labor in the UPS strike, he still needs to portray himself (and his supporters) as feeling labor's pain on wage competition south of the border. Ditto Gore. The VP also will seek to toughen environmental rules for Latin factories to reassure environmentalists worried by his recent wavering. Gephardt, eyeing the presidency, will want to appear less obstructionist than he did in his losing stand against NAFTA (and Clinton) in 1993.

A desirable ending: There should be no doubt that much of the growing US and world prosperity in the past two decades - indeed in the past half century - is a result of global trade expansion. The US, with its huge internal market, was one of the last nations to "need" more trade to improve

growth, jobs, profits, and standard of living. But the trade portion of Americans' prosperity continues to grow, particularly as US research and entrepreneurship create more of the idea-based technologies and services that are sweeping the world.

For this growing US export economy, NAFTA expansion makes sense. There has been no "giant sucking sound" of jobs going south to Mexico. In the still-fledgling years of NAFTA, jobs lost and jobs gained have netted out to a slight US gain. Job creation south of the border has been a factor in Mexico's gradual climb back from its economic plunge of two years ago.

No one can run economic experiments two ways to compare results. But it's logical to believe that job growth in Mexico helps curtail migration to the US. And the jobless in Mexico make ready foot soldiers for drug lords.

Are there lessons to be learned from NAFTA's brief existence? Should tougher regulations be required? Look at three areas: (1) work conditions, (2) wages, (3) environment impact.

1. It's in the interest of each nation to protect workers' well-being by legislating standards for safety, hours, ventilation, sanitation, work breaks, age, etc. A treaty cannot micromanage such standards. It can, and should, establish minimum goals.

2. NAFTA-type treaties shouldn't mandate pay scales. Wages relate to local cost of living and buying power. You can't equate Los Angeles and a Chiapas village. As in all good deals, both parties need to win. In trade, US consumers gain cheaper products. The US gains a reduction of illegal border crossing. US workers win some limit on wage competitors at home. Developing nations win a gradual rise in wages and standard of living. Citizens can afford more imports from the developed world - consumer goods, education, and, yes, entertainment. That's happened in much of Asia. It's happening in parts of Latin America.

3. Clinton has, in effect, already offered Gephardt a way to back off his argument about NAFTA factory pollution. The president recently indicated he would agree to a global warming treaty only if it demanded the same pollution restraints from developing nations' industries as from those in developed nations. That approach would avert a mass flight of industry (and jobs) heading south to escape pollution regulation. It should remove pollution arguments as a super-NAFTA stumbling block.

Synopsis: Learning from his 1993 cliffhanger role supporting NAFTA, President Clinton should press ahead decisively now. Benefits outweigh drawbacks. History is on his side.

Make no mistake: Trade growth has led to growing American - and world - prosperity.

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Free the fast track

“Every dollar of increase of price which the protective tariff occasions is a day of slavery, and every hour of unnecessary labor that it requires is stolen from invaluable time of individual responsibilities and duties.” So said Rep. Frank Hurd back in 1884. President Clinton ought to keep such “slavery” in mind tomorrow when he is scheduled to unveil an important initiative to expand free trade.

At issue is a plan to deal Chile into the North American Free Trade Agreement through so-called fast-track authority. It would provide, among other things, that the administration could negotiate a trade deal with Chile without fear that lawmakers would subsequently micro-manage it to sweeten the agreement on behalf of one special interest or another, thereby forcing a whole new round of negotiations. Lawmakers would still have their say. They could vote the deal up or down. They just couldn’t amend it.

This deal should be a no-brainer. As a matter of principle, the United States should not be in the business of “protecting” American consumers from lower prices for goods and services that come of free trade. To the extent that government restricts worldwide competition among producers through tariffs or other trade barriers, it taxes, in effect, consumers everywhere, including the United States. This is Big Government in an age when Mr. Clinton said its day had passed.

Already consumers are paying the price of Chile’s delayed entrance into NAFTA. It was invited to join in 1994, following several years in which it reduced its own tariffs substantially. But now, say economists, its progress has slowed; Chile is concerned that further reductions would mean giving up its bargaining position come the NAFTA negotiations. So its tariffs continue to hover at 15 percent in hopes that

the day will come when it can drop the rates still further in exchange for reduced trade levies and greater market access from its future trading partners.

Given the way the U.S. economy is humming along in the wake of the original NAFTA deal, one would have thought opposition to its expansion would have been side-tracked, at the least. The point here is not that NAFTA guaranteed economic growth, just that it helped make it possible.

But there remains significant opposition to granting fast-track authority to the president in both parties. Big Government conservatives want trade barriers in order to protect favored industries and their employees. Big Government liberals want barriers to protect the environment and their union supporters.

Some objections reflect partisan political considerations. House Minority Leader Richard Gephardt no doubt sees trade as a wedge issue with respect to a key Democratic constituency, organized labor. Its support would be critical to him in a presidential nomination fight with Vice President Gore, who has little choice but to stand with Mr. Clinton and free trade. The AFL-CIO is now preparing anti-fast-track TV and radio ads targeted for key congressional districts.

Senate Majority Leader Trent Lott, meanwhile, is threatening to hold up action on fast-track authority if Democrats filibuster on unrelated issues, such as campaign finance reform. Every day such “shenanigans” are played, he said, consideration of fast-track authority will be delayed.

One would hope Mr. Clinton and Mr. Lott understand what’s at stake here and why such tactics, on both sides, ought to be avoided. Neither partisan politics nor protectionist sentiments warrant the kind of “slavery” of which Mr. Hurd once spoke. It’s time to pass fast-track and free the consumer.

The Washington Times

TUESDAY, JUNE 24, 1997

Fast-track to nowhere

Rarely does President Clinton sound more like the New Democrat he professed to be in 1992 than when he takes up the cause for free trade. And during the first two years of his first term, courageously battling the Old Guard of his increasingly protectionist party and the New Protectionists of the GOP, he forged bipartisan coalitions that delivered two extraordinary trade victories: the regional North American Free Trade Agreement (NAFTA) among the United States, Canada and Mexico and the global World Trade Organization (WTO).

Since then, unfortunately, the rhetoric has been less frequent, the effort on behalf of free trade agreements has been far subdued and, not surprisingly, the big victories have become a thing of the past. No doubt the two triumphs achieved in 1993 and 1994 brought about "trade fatigue," which, regrettably, has been exacerbated by the increased influence organized labor and the battle over China's most favored nation trade status.

How bad is the situation now? "It's a shambles," Jeffrey Garten, the Under Secretary of Commerce during Mr. Clinton's first term, told the New York Times recently. "What was once a vigorous approach to commercial diplomacy has been eviscerated," he lamented. "In Congress the political foundation for a broad trade policy has crumbled."

Relinquishing the trade initiative comes at a bad time. Many U.S. industries, particularly information technology, telecommunications, financial services and agriculture, are now the most competitive in the world. Moreover, with the U.S. economy thriving, both relatively and absolutely, the leverage of offering increased access to the U.S. market in return for reciprocal arrangements is at its strongest in decades. Meanwhile, the expansion of NAFTA, so promising in late 1994 when nations throughout Latin America convened at a Miami summit, has languished, and countries throughout the region have been bypassing the United States in establishing their own agreements.

The momentum may be about to change, but for that to happen Mr. Clinton will have to exert the strong trade leadership he showed early in his presidency on this issue. In his remarks at the so-called "Summit of Eight" in Denver last weekend, Mr.

Clinton once again was at the top of his rhetorical game, offering a flourish of support for the pursuit of free trade. "Protectionism is simply not an option because globalization is irreversible," he said. "So what are we going to do? Are we going to take the lead or wait for others to blaze the path and get the primary benefits? . . . It seems to me difficult to imagine that this is even a serious debate now. . . . I say we should be doing more of it, not less of it. We ought to bear down and charge into the future" — [applause] — "and embrace the rest of the world."

The centerpiece of a free-trade offensive is "fast-track" authority, which enables the administration to engage other nations in give-and-take trade negotiations, producing mutually beneficial agreements that are then presented to Congress for an up-or-down vote without amendments. Fast-track authority is essential because otherwise special interests can obstruct deals by attaching killer amendments they know will be unacceptable to our trading partners.

In Denver the president once again rightly demanded that Congress give him fast-track authority, which expired several years ago. All presidents have had such negotiating power since 1974, and Republicans would love to give it to him. The problem is that the protectionist wing of the Democratic Party, led by House Minority Leader Dick Gephardt and Minority Whip David Bonior, insist that any legislation granting fast-track authority also give the president the power to negotiate environmental and labor standards into new trade agreements. In effect, by requiring foreign companies to closely adhere to the same labor and environmental standards that U.S. corporations must follow, protectionists would succeed in attaching the very trade-killing amendments that fast-track is designed to overcome. Trading partners, Republicans and most economists oppose this requirement, arguing that it would eliminate many of the comparative advantages that enable developing nations to develop.

Our trading partners must wait until September to learn whether Mr. Clinton's free-trade policies match his free-trade rhetoric. But as their actions have demonstrated, these partners are not waiting for the president to make up his mind.

The Washington Post

WEDNESDAY, JULY 9, 1997

Laura D'Andrea Tyson

Inequality Amid Prosperity

During the past four years, the American economy has enjoyed a robust expansion with low unemployment, greater international competitiveness and modest inflation. Unfortunately, the economy's expansion has failed to reverse two disturbing long-run trends: stagnant or falling real earnings for the majority of workers and increasing income inequality among workers and households.

Although average real earnings for nonsupervisory production workers increased slightly in 1996 (a trend that is continuing in 1997), they remain far below their postwar peaks of the mid-1970s. In addition, the gap between rich and poor households is much larger than it was 20 years ago.

Much of the increasing inequality in family incomes has its origins in the marked increase in inequality of labor earnings. According to the Institute for International Economics, during the past two decades the ratio of wages of the top 10 percent of workers to those of the bottom 10 percent rose from about 360 percent to about 525 percent for men and from about 380 percent to about 430 percent for women.

Behind these yawning gaps are significant increases in wage differentials by education, age and occupation. To make matters worse and even more difficult to explain, so-called within-group inequality—that is, differentials in earnings for workers with the same educational, age and occupational characteristics—also has risen sharply.

There appear to be three major forces behind these troublesome trends. Technological changes have increased the demand for—and relative wages of—highly skilled, college-educated workers. Globalization, including import competition and immigration, has increased the supply and depressed the relative and absolute wages of less-skilled, high school-educated workers. Institutional forces, including a sharp decline in unionization and in the real value of the minimum wage, also have put low-skill workers at a disadvantage.

Most economists accord the greatest weight to the technological explanation for rising wage inequality. This explanation is consistent with the fact that an increase in both the relative employment levels and the relative earnings of more skilled workers has occurred across the entire economy, from manufacturing to services and from tradable products to non-tradable ones. In addition, empirical studies have established a direct link between the technological intensity of jobs and the wages they pay.

Economists, politicians and commentators are waging a debate about the globalization explanation of wage inequality. The simple analytical logic of this explanation is compelling—growing import competition and growing immigration from low-skill, low-income countries have made unskilled labor a more abundant factor of production and therefore reduced its relative price. Opinion is shifting toward the view that globalization has had a "moderate" effect—perhaps accounting for one-fourth to one-fifth of the nearly 20 percent rise in the wage differential between skilled and unskilled labor—and the estimate of this effect has been creeping up over time. There is

also a developing consensus that immigration has had a more powerful adverse effect than trade on the wages of the poorest workers.

Given the powerful and diverse forces driving inequality and the economic disaster that has befallen low-skilled workers, especially young men, in recent years, how should policy-makers respond?

First they should diagnose the problem correctly. There is no evidence, for example, that higher tax rates are the culprit. The effective tax rate for a middle-class family of four is about the same today as it was in 1980. The top 1.4 percent of families pay substantially less than they would pay at rates prevailing 20 years ago, and the tax rate for the bottom quintile of families has been cut by the generous expansion of the earned income tax credit. There is little economic justification for significant overall tax relief at this time, and even less for the Republican package, which targets too much of the benefits to upper-income families. Generous capital gains tax relief, including indexing and estate tax relief, would not significantly improve the economy's performance but would exacerbate income inequality.

Policy-makers should not vainly attempt to reverse the forces of globalization by building protectionist walls. Protectionism would raise consumer prices, shrink export opportunities and the high-paying jobs they support, and reduce net economic welfare, potentially making everyone worse off. With 95 percent of the world's consumers outside our borders, we must focus on breaking down barriers to trade abroad, not building them up at home. This requires that Congress grant President Clinton and his able trade representatives fast-track authority to negotiate tough, enforceable trade agreements.

As a recent study of the National Research Council confirms, although immigration benefits the economy overall, with little negative effect on the income and job opportunities of most Americans, it has depressed wages of low-skill native-born Americans. These findings imply that the United States should shift toward skills and away from family ties as the basis for awarding immigration quotas in the future.

The balanced-budget deal must include adequate financing for social safety net programs—including food stamps, the earned income tax credit, Medicaid, housing subsidies and Social Security—that ease the challenges facing millions of low-income American workers and their families. Such programs effectively contain increasing income inequality.

Finally, policy-makers at all levels must renew their efforts to provide all Americans with opportunities to upgrade their education and skills throughout their lifetime. Lifelong learning is a necessity if workers are to meet the demands created by changing technology and intensifying globalization.

The writer, who was President Clinton's economic adviser in his first term, is professor of economics and business administration at the University of California at Berkeley.

Mickey Kantor

A Matter Of Leadership

The Clinton administration and Congress are poised to begin a contentious debate that is routinely misunderstood and rhetorically misstated. The controversial debate surrounding the president's request for strengthened trade negotiating authority—known as "fast track"—is in danger of being trivialized as merely a referendum on the North American Free Trade Agreement (NAFTA). This is misleading at best and potentially dangerous to U.S. foreign policy and economic interests at worst.

In reality, fast track has almost nothing to do with NAFTA and everything to do with asserting U.S. leadership to the economic, political and strategic advantage of all Americans.

Today we live in an interdependent, globalized world. No longer are we self-contained, nor is it in our interest to be so. Driven by technological change, freed of Cold War conflicts and connected by economic and other strategic interests, the era of interdependence demands negotiation, engagement and leadership. This reality is routinely ignored by those who would have us cower behind walls of fear, thus ignoring the world as it is and retreating from competition.

First, we can no longer ignore problems that occur across the border or across the ocean. Terrorism, drug trafficking, control of weapons of mass destruction, environmental concerns and economic progress are now cross-border issues. Interdependence has created an unavoidable necessity to address these and other issues, which have bilateral, regional and multi-lateral impact.

Second, we cannot afford to overlook foreign markets. With only 4 percent of the world's population, and 21 percent of the world's gross

The fast-track debate is about embracing the new global economy and championing it.

domestic product, the United States has become increasingly dependent upon trade in our pursuit of economic prosperity. Today 32 percent of the U.S. economy is tied to trade, and trade's share of our overall economy will continue to expand.

In fact, legions of U.S. workers and U.S. businesses owe an increasing share of their income to the ability to impact foreign markets. More than 12 million American workers owe their jobs to exports today, and the U.S. Department of Commerce estimates that by the year 2000, 16 million Americans will have export-supported jobs. These are good, high-wage jobs, paying on average 13 percent to 16 percent better than the average wage.

In addition, many politicians decry the amount of goods that the United States imports each year. But imports mean lower prices for American consumers and keep U.S. markets competitive, thereby encouraging companies to be more innovative.

The prophets of doom argue that it's not trade they're against—but *unfair* trade. President Clinton has taken a back seat to no one in the fight against foreign trade barriers. But someone needs to tell these people that the United States has maintained the world's most open economy for 50 years. The only way to move today to a position of greater reciprocity and fairness is by negotiating new trade agreements. As a result of the more than 200 trade agreements that the Clinton administration has negotiated, exports have increased approximately 40 percent since 1993 and are projected to reach \$900 billion by the end of 1997. It is projected that the United States will reach its target of \$1 trillion in exports well before the year 2000. That progress, however, came only because of fighting it out in the trenches of trade negotiations.

The inability of U.S. negotiators to reach new, balanced and fair market-opening agreements will significantly harm our ability to compete. Other countries are not sitting idly by. In the absence of U.S. leadership, other nations are forging bilateral and regional trade pacts on their own—at the expense of U.S. market share and jobs.

Third, trade is a fundamental component of U.S. foreign policy, and as such, it is an important strategic tool. Through trade agreements, the United States not only can open markets to U.S. goods and services but also develop strategic partners in key areas of the world and demonstrate the leadership that makes us the economic, military and political envy of the world. Should the United States decide to withdraw from the opportunities—and obligations—of leadership by rejecting the granting of fast-track authority, we would be sending a strong message to the world that the United States is willing to shirk its responsibility as a world leader and relinquish its quest to create an ever higher standard of living for the American people.

Let's be clear. The fast-track debate is not about any particular trade agreement, nor is it about partisanship or ideology. It is about U.S. jobs, economic growth and competitiveness. It is about embracing the new global economy and championing it. It is about assuring the world that the United States will continue to be the world leader in this new era of interdependence. In short, it is about rising to the challenges of the 21st century.

If Congress acts quickly to grant the president fast-track negotiating authority, our generation can set the capstone on 50 years of concerted, bipartisan effort to promote open markets and open government. It will enrich our people, and it will promote our security. Or we may snatch defeat from the jaws of victory. If we hesitate on fast track, 1997 may stand as a marker of when the United States, having persuaded the world to follow, ceased to lead.

The writer, the former secretary of commerce and a former U.S. trade representative, is a Washington attorney.

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