



THE FAST TRACK TO FREER TRADE

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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.

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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 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

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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 protrade 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” which 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 retaliated, 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 create 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 proposal 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 U.S. 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 output 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 Sept. 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.

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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.
 12. JayEtta Z. Hecker, General Accounting Office, "North American Free Trade Agreement: Impacts and Implementation," Statement before the Subcommittee on Trade of the House Committee on Ways and Means, September 11, 1997, GAO/T-NSIAD-97-256, p. 9.
 13. Joint Economic Committee of the U.S. Congress, p. 11.
 14. *Ibid.*, p. 10.
 15. Office of the U.S. Trade Representative, pp. 23-24.
 16. W. Lee Hoskins and James W. Coons, "Mexico: Policy Failure, Moral Hazard, and Market Solutions," Cato Institute Policy Analysis no. 243, October 10, 1995.
 17. Office of the U.S. Trade Representative, pp. 25-28.
 18. *Ibid.*, p. 26.
 19. Jeff Gerth and Tim Weiner, "Imports Swamp U.S. Food Safety Efforts," New York Times, September 29, 1997, p. A1.