TRADE AND AMERICA'S FUTURE

LOWERING GLOBAL TRADE BARRIERS WILL CREATE NEW ECONOMIC OPPORTUNITY FOR ALL NATIONS — INCLUDING OUR OWN.

BY CARLA A. HILLS

The election campaign of 2008 marked a sharp reversal of the bipartisan consensus favoring the free flow of goods, services, capital and ideas that has guided our nation since World War II. During the primaries, the leading Democratic contenders for president attacked free trade and pledged to vote against the bilateral trade agreements with Korea and Colombia that the current administration has negotiated, on the ground that open trade hurts American workers.

It is hard to believe that just 15 years ago, a Democratic administration was celebrating the passage of the North American Free Trade Agreement, pledging with the 33 other democratically elected leaders of the Western Hemisphere to negotiate a Free Trade Area of the Americas and endorsing an agreement reached among the 21 economies of the Asia Pacific region to liberalize trade throughout that region.

In contrast, today an increasing number of our elected representatives are embracing what economist Robert Samuelson calls "new mercantilism," which he defines as "policies intended to advance [one country's] own economic and political interests at other countries' expense."

Mercantilism stands in stark contrast to the theory of comparative advantage advocated by David Ricardo, who contended that all countries benefit if global markets are kept open and each country sells what it best produces. His theory has guided our bipartisan trade policy for more than six decades, but now is under fierce assault.

The U.S. Role in Opening Markets

For 60 years the United States has taken leadership positions in opening global markets, starting with the first round of trade talks among 23 nations in 1947 and the creation of the General Agreement on Tariffs and Trade, through the 1995 creation of the World Trade Organization and the 2001 launch in Doha of the ninth and current round of trade talks among 153 nations. As global markets opened, trade exploded and standards of living soared.

Economist Gary Hufbauer, in a comprehensive study published in 2005 by the Peterson Institute for International Economics, calculates that the opening of global markets since the end of World War II has made

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the United States richer by $1 trillion per year, creating about $9,000 of additional wealth each year for the average American household.

Developing nations also gained from globalization. On average, poor countries that opened their markets to trade and investment have grown more than three times faster than those that kept their markets closed. Studies conducted by World Bank economist David Dollar show that globalization has lifted 375 million people out of poverty.

And the benefits have not been only economic. As governments liberalized their trade regimes, they often liberalized their political regimes. Compliance with a set of trade rules encourages transparency, adherence to the rule of law and respect for property. This, in turn, strengthens stability.

Future Benefits from Opening Trade

Self-interest alone should persuade Americans to urge their government to continue to work to open markets and to bring the current round of trade talks to a successful conclusion. Dr. Hufbauer calculates that a further opening of global trade would raise U.S. incomes by an additional $500 billion per year, making the average U.S. household richer by $4,500 per year. It is hard to think of another policy decision that could come close to having such a positive impact on U.S. economic well-being.

In addition, a broad agreement in the current round of global trade talks would help reduce poverty worldwide by building markets for tomorrow, as the first round stimulated growth by rebuilding the economies of nations devastated by World War II. Today nearly three billion people, almost half the world's population, live below the international poverty line of $2 per day. According to studies by economist Dr. William Cline at the Center for Global Development, removing global trade barriers would yield $200 billion annually in long-term economic benefits for poor countries and lift 500 million people out of poverty. About half of the benefit would come from opening markets for agricultural products.

Three of the large developing countries involved in the current round of trade talks — Bangladesh, Indonesia and Pakistan — each have roughly 100 million people living below the international poverty line. In addition, six African nations — the Democratic Republic of the Congo, Kenya, Mozambique, Nigeria, Tanzania and Uganda — together account for another 200 million people living in poverty. Dr. Cline calculates that, on average, when a developing country increases its ratio of trade to total output by 1 percent, it achieves an equivalent reduction in its level of poverty.

Misinformation and anxiety about the economic future explain the growing hostility toward trade agreements.

Reducing global poverty is not simply a humanitarian measure. It is one of the most effective ways to strengthen our security. Impoverished states lack the ability to enforce their laws and secure their borders, making it much more difficult for the U.S. government to deal effectively with transnational problems: terrorism, organized crime, narcotics trafficking, money laundering, illegal arms sales, disease pandemics and environmental degradation.

As part of that effort, the current round of trade talks should correct gross inequities in the global trading system. For instance, agricultural tariffs are five times higher than tariffs on industrialized goods. That disproportionately harms the economies of poorer countries, which tend to have large rural populations. Making matters worse, tariffs are much higher on goods like textiles, apparel, heavy glass and footwear that are primarily produced by poor countries. Most Americans would be astonished to learn that last year Bangladesh paid the United States $120 million more in tariffs on its $3 billion of exports to us than France paid on its $37 billion in exports. That works out to be a 15-percent tariff on Bangladesh's goods and less than 1 percent on France's.

Making the Case for Trade

With so much at stake, why have our politicians turned hostile toward trade agreements?

It is not that those seeking elective office had an epiphany causing them suddenly to reject 60 years of bipartisan consensus favoring open trade. Rather, they have focused on polls that show that Americans have soured on such policies. In a March 2007 *Wall Street Journal*/NBC poll, 54 percent of Democratic voters said that free-trade agreements hurt the United States, compared with just 21 percent who said they helped. In a similar poll conducted in December 2007, a majority of the Republicans polled agreed with the statement that free trade had been bad for the United States.

What explains the disconnect between the substantial benefits that trade delivers and the declining support it receives from the American public? I believe there are two basic reasons: misinformation and anxiety about the economic future.

Most Americans have not thought about what would happen to our economy if we did not have access to global markets. With less than 5 percent of the world's population, our nation produces roughly 20 percent of the world's output. So we need customers beyond our borders to buy our computers, machine tools, aircraft, soybeans, construction equipment, flat glass and so much more.

Few know that the past 60 years of international trade has made average American households richer by $9,000 per year, or realize that an agreement in the current round of trade talks reducing trade barriers by just one-third would increase the average American's annual income by $2,000. Most are unaware that jobs connected to international commercial activity earn on average 13 to 18 percent more than jobs in the overall economy. They only hear that imports cost jobs, when there is actually a very high correlation between an increase in imports and job creation.

And few Americans know that opening markets and expanding opportunities for trade help to alleviate the poverty that puts weak states at risk. They are unaware that wealthy governments, including our own, pay their farmers huge subsidies that force more efficient farmers in poor countries out of the market. Nor do they realize that 80 percent of the subsidies that our government pays its farmers go to large agribusinesses, not to small family concerns. And they would be surprised to learn that the United States, Europe and Japan spend over $7 billion each year to subsidize their less competitive sugar farmers, a sum greater than the total exports of more efficient sugar producers in developing countries such as Kenya, Malawi, Sudan and Zimbabwe.

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Political leaders should make it a priority to educate Americans about such facts. Business leaders, universities, think-tanks and knowledgeable citizens must do more, as well. Just think of the impact if the chief executive of every U.S. company with any international activity would explain to his or her company's employees how open markets contribute to the company's revenues and what percent of the employee's paycheck came from international activities. They could spread the word through wall postings, closed-circuit TV, Web sites, meetings in the cafeteria, messages in pay envelopes, and notices with W-2 forms.

In addition, colleges and universities could offer more classes on international economics and trade, and think-tanks could publish more articles on those subjects.

Combating Job Anxiety

While educating Americans about the benefits of open trade is necessary, it will not be sufficient to turn the political tide. Making the case that open markets expand choice, lower costs and create economic opportunity will not convince the textile worker in South Carolina who has lost his job and blames Chinese imports, or the telephone operator in Ohio who learns that her job has been transferred to a call center in India. Nor will we win support for trade from a laid-off manufacturing worker by pointing out that technology, not trade, has transformed the manufacturing sector over the past decade — enabling us to produce 30 percent more goods with 20 percent fewer workers. To be credible, we must admit that the gains from trade do not make every citizen a winner.

We also need to do a better job of helping workers displaced by the rapid changes driven by technology and globalization, through allocating some of the very substantial yearly gains we derive from trade to fund responses like wage insurance. This program supplements the income of a displaced worker who takes an entry-level job in a new sector at lower pay. Insuring the income gap encourages the worker to stay in the labor force, obviating the need to pay unemployment insurance. Making health care benefits portable and providing a health coverage tax credit to help fund health premiums during the period of unemployment would also help reduce worker anxiety.

The same studies that calculate the U.S. economic gain from foreign trade to be $1 trillion per year estimate the annual cost of funding wage insurance and transitional health care assistance at $12 billion to $15 billion annually. Our government currently spends less than $5 billion on programs to help displaced workers adjust. To rebuild public confidence in open markets, we need to do more.

Growing income inequality is another factor contributing to Americans' anxiety about trade. They worry that the shift in earnings away from unskilled workers to the more highly skilled will enable countries with large pools of unskilled labor to destroy the American dream. And it is true that the pay gap is widening between those who are educated and those who are not. As Nobel Prize-winning economist Gary Becker has pointed out, the earnings differential of those with a college degree over those with a high school diploma has jumped from 30 percent in 1980 to 70 percent today — while the premium for graduate degrees has risen from 50 percent to well over 100 percent over the same period.

If the United States is to remain super-competitive in the 21st century, we will need a work force that is the best trained and most productive in the world. That will require us to improve education at the kindergarten through 12th-grade levels. It is unacceptable that more than 30 percent of our current high school students fail to graduate. And if we are to be a leader in today's technologically driven world, we will need to encourage more of our young people to become better educated in the hard sciences. Some have called for incentives for college students to study math and science. Others believe that we should finance college education in exchange for public service.

For years we have given tax incentives to encourage businesses to invest in capital equipment to enhance our nation's productivity. Now we need to focus on how to create effective incentives to encourage investment in our human capital.

In creating programs that will cushion the costs of displacement and help build the skills needed to adjust to today's fast-changing world, the administration and leaders in Congress should enlist the help of the private sector. Businesses have a genuine interest in figuring out ways to help. They cannot afford to have global opportunities close because of growing economic anxiety here at home.

Learning from History

As Norman Cousins once said, "History is a vast early warning system."

There are some eerie similarities between the circumstances that prevailed during the last century and the current situation. From 1860 to 1914, the global economy enjoyed a remarkable period of growth characterized by relatively open trade; limited capital regulation; tremendous technological innovation with the introduction of the radio, telephone and internal combustion engine; and a robust global economy to which America was the largest contributor.

After World War I, we failed to muster the political will to reopen the global economy. The decade that followed the end of those hostilities saw growing tensions among the great powers, an unstable alliance system and the spreading influence of the Bolsheviks, who were hostile to capitalism and dedicated to using violence to change the world in accordance with their ideology.

In 1927 and 1928 U.S. labor markets weakened, and presidential candidate Herbert Hoover pledged in the 1928 campaign to help American farmers by raising tariffs on agricultural goods. Anxieties soared after the 1929 banking crisis, and on June 17, 1930, Congress passed the Smoot-Hawley Act, raising tariffs to record highs on more than 20,000 imported goods.

President Hoover said that he disapproved of the legislation, but signed it notwithstanding a petition signed by 1,008 economists urging a veto. Before the ink was dry on his signature, our trading partners began the retaliation that helped to bring the global economy and our own to a standstill. And within a decade the peace was destroyed.

Today, after six decades of remarkable growth and truly extraordinary technological achievement, tensions are increasing as the world seeks to adjust to the rise of China and India. Our alliances at the United Nations Security Council and North Atlantic Treaty Organization have weakened. Al-Qaida and similar terrorist groups hostile to Western values seek through violence to change the world according to their ideology; our financial institutions are under great stress; and high energy costs and the credit squeeze have led to steady layoffs.

Against this backdrop, elected representatives are claiming that open trade is costing our nation millions of jobs and are pledging to vote against trade agreements already negotiated and to pull out of others. Restrictive legislation has been introduced in the 110th Congress on matters ranging from penalizing outsourcing to curtailing Chinese imports, and its members have passed a farm bill increasing subsidies in the face of relatively high commodity prices.

Efforts to limit foreign competition risk repeating the policy mistakes that have cost us so dearly in the past. Failure to integrate developing nations into the global trading system will not only limit our own future economic opportunities, but will alienate the excluded populations encouraging them to side with those who would do us harm.

With the rhetoric of the campaign behind us, our great country must marshal the political will to lead the world in lowering global trade barriers to create new economic opportunity for all nations, including our own. That will require our public and private sectors to work hard to rebuild a domestic constituency that understands what is at stake and will take the steps necessary to ensure that our nation can continue to compete vigorously in the 21st century. ■