September 11, 1998 No. 4

CENTER FOR TRADE POLICY STUDIES

A New Track for U.S. Trade Policy

by Brink Lindsey

Executive Summary

For over six decades, free traders in this country have pursued trade liberalization through a strategy of diversion and appeasement: diverting attention away from opening the U.S. market by focusing on exports and foreign policy goals, and appeasing protectionists at home with “fair trade” policies in the hope of preventing even worse import barriers. That strategy achieved considerable success: it shifted the basic orientation of U.S. trade policy away from protectionism and toward gradual liberalization.

But the diversion-and-appeasement strategy is no longer working well. With the end of the Cold War, free traders have lost their foreign policy trump card. Meanwhile, the advance of economic globalization means that trade policy is no longer an insider's game; international economic issues now arouse popular passions that the old approach was never designed to address. In this new environment, continued reliance on diversion and appeasement has actually become self-defeating. By refusing to challenge (and even endorsing) the mercantilist and fair trade fallacies of their opponents, free traders are helping to perpetuate a political culture that is hostile to their own agenda. The rising tide of “globalphobia” in the midst of unrivalled prosperity demonstrates that free traders are doing something wrong.

It is time for a change of strategy. Free traders need to take protectionist misconceptions and special interests head-on, and to make an unapologetic case for international free markets. This new approach is not merely rhetorical; it is programmatic as well. Free traders should expand beyond their traditionally exclusive reliance on negotiated liberalization and launch a campaign for the unilateral elimination of specific U.S. trade barriers. At the same time, they should develop a new model for trade negotiations in which commitment to free-trade principles replaces the old dogma of reciprocity.

Brink Lindsey is a senior fellow at the Cato Institute and director of its Center for Trade Policy Studies.

CATO INSTITUTE

To revitalize their cause, free traders need more than better salesmanship. They need a new product.

Introduction

For over four years, U.S. trade policy has been snagged on the question of "fast track" negotiating authority. Without fast track—and its assurance that Congress must vote up or down on trade agreements, with no amendments, and within a specified period—major new trade talks are stymied because other countries are reluctant to bargain seriously when any resulting deal could be rewritten in Congress.[1]

Since the last grant of authority expired in 1994, more than three years of wrangling and posturing went by before the Clinton administration finally came forward in September 1997 with a new fast track bill. Weeks of intense lobbying brought the measure to within a few votes of passage, but in the end the gap could not be bridged. In the wee hours of November 10, 1997, President Clinton withdrew the bill rather than let it be defeated in a House floor vote.

Now fast track supporters are preparing for another try. On July 21, 1998, the Senate Finance Committee reported out an omnibus trade bill including fast track renewal. Meanwhile, the House Republican leadership has promised a vote on fast track the week of September 21. To date, though, the Clinton administration has opposed a vote prior to the midterm elections in November, and the fate of fast track this year remains uncertain.

Even assuming that fast track is renewed sooner rather than later, free traders will have little cause for celebration. Merely avoiding the repetition of a fiasco is not a success. And, of course, fast track by itself accomplishes nothing. All it does is to enable negotiations to begin. It does not determine what we should seek to negotiate, whether we will be able to reach a desirable agreement, and certainly not whether any agreement can win approval by Congress.

Looking beyond fast track renewal, supporters of free trade need to ask themselves how their cause got caught in such a quagmire. Why has just getting talks started been such an excruciating ordeal? What has happened to make trade liberalization so bitterly controversial? After all, economic conditions in recent years could hardly have been more favorable for a free-trade initiative. The United States is in its eighth year of uninterrupted growth, and unemployment and inflation are at their lowest combined level in 30 years. Meanwhile, after the competitiveness scares of the 1980s, major U.S. industries are resurgent and healthy. While Europe suffers chronic double-digit unemployment, Japan is mired in a lost decade of bad debt and low growth, and the rest of East Asia is roiled by a currency crisis, the U.S. model of open markets and freewheeling competition is without any serious rival. If free traders cannot prevail under these circumstances, when can they?

Despite the glowing economic news, many Americans are deeply skeptical of globalization and its effects on the U.S. economy. According to a *Business Week*/Harris poll of September 1997, 56 percent of Americans believe that expanded trade decreases the number of U.S. jobs, while only 17 percent believe that expanded trade increases wages. The same poll shows that Americans oppose renewal of fast track authority by a 54 to 36 percent margin.[2]

In light of growing "globalphobia," many commentators have argued that free traders must do a better job of selling the public on the benefits of trade expansion. They point to the energized, grassroots opposition to trade liberalization and the absence of any similar effort on the pro-trade side. In particular, they criticize President Clinton for failing to make a greater effort to swing public opinion on this issue; likewise, they fault the business community for engaging in "just-in-time lobbying" instead of pursuing a sustained program of free-trade advocacy.[3]

These points are well taken, but they do not go deep enough. To revitalize their cause, free traders need more than better salesmanship. They need a new product.

For over six decades, supporters of trade liberalization have pursued a remarkably consistent strategy. This strategy, which dates back to the Reciprocal Trade Agreements Act of 1934, is rooted in the assumption that head-on confrontations with protectionist forces should be avoided at all costs. According to this view, free trade is too weak politically to win a fair fight; it can only hold and gain ground by alternately diverting and appeasing protectionist pressures. Diversion is accomplished through trade negotiations, which enable free traders to downplay reductions in U.S. trade barriers while trumpeting new opportunities for U.S. exporters, as well as playing on the need for America's international leadership. Appeasement, meanwhile, occurs primarily through the so-called trade remedy laws—namely, the antidumping and countervailing duty laws, and the Section 201 escape clause—which impose protection when certain preestablished criteria are met.

Thus, the traditional free-trade strategy may be summarized as the attempt to achieve freer trade here and abroad without ever making the case for it here. Liberalization of the U.S. market is achieved by changing the subject; a full-scale protectionist reaction is avoided by providing safety valves that enable aggrieved interests to get some relief without wrecking the whole system.

Over the course of six decades, this strategy has achieved considerable success. Tariff rates in the United States and other industrialized countries on manufactured goods have plummeted from punishing levels during the 1930s to under 5 percent today. In this decade, the North American Free Trade Agreement (NAFTA) has substantially furthered economic integration with our neighbors; and the Uruguay Round and follow-up World Trade Organization (WTO) negotiations have extended free-trade principles on a global basis to agriculture, textiles and apparel, intellectual property, telecommunications, and financial services.

At present, however, the traditional free-trade strategy is no longer working well. Putting it quite simply, the strategy is out of date. The conditions that enabled it to succeed—notably, the Cold War and the marginal importance of trade to the U.S. economy—are no longer operative. Indeed, the traditional strategy is now self-defeating: It is fostering a hostile political culture and thus contributing to its own demise.

Meanwhile, new conditions have arisen that make a frontal assault on protectionist forces more politically practical than ever before. The globalization of production has created powerful, new free-trade interests; at the same time, the worldwide triumph of free-market ideas weakens the protectionists' ability to legitimize their claims.

It is time for free traders to make a shift in basic strategy. It is time to take protectionist fallacies and special interests head-on, to seize the intellectual initiative, and to make an unapologetic case for free trade and open markets.

The proposed change in strategy is more than rhetorical; it is programmatic. Free traders should expand beyond their traditionally exclusive reliance on negotiated liberalization and launch a campaign for the unilateral elimination of specific U.S. trade barriers. This strategic shift is designed not to undermine or replace trade negotiations but to save them from themselves.

Stealth Liberalization

The economic case for free trade has been made innumerable times over the past two centuries, but it always boils down to Adam Smith's observation in *The Wealth of Nations* that "the division of labor is limited by the extent of the market."[4] By expanding the scope for voluntary exchange beyond national borders, international trade fosters a broader division of labor and the resulting gains from increased specialization. To quote Adam Smith once more:

> It is the maxim of every prudent master of a family, never to attempt to make at home what it will cost him more to make than to buy. The tailor does not attempt to make his own shoes, but buys them of the shoemaker. The shoemaker does not attempt to make his own clothes, but employs a tailor. . . .
>
> What is prudence in the conduct of

The traditional free-trade strategy may be summarized as the attempt to achieve freer trade here and abroad without ever making the case for it here.

every private family, can scarce be folly in that of a great kingdom.[5]

Thus, international trade gives us the opportunity to buy products from abroad that are better or cheaper than what we can make for ourselves. We are richer as a society as a result. And, over time, the workforce and resources that would have been devoted to making what we now import can be shifted to making other products. In particular, since we pay for our imports with exports, international trade leads us to specialize in producing those products that we are relatively better at making.

Actually, the benefits of international trade extend beyond imports and exports. Even in the domestic market, the spur of foreign competition leads to lower costs and improved quality. For example, Americans drive much better cars today than they did 20 years ago not just because many now drive Japanese cars; American-made cars are also much better than they once were, in large part as a response to Japanese competition.

Notice that this brief explanation of free trade's blessings contains no mention of "fair trade" or a "level playing field." A country that opens its markets will reap gains from international specialization even if other countries keep their markets relatively closed. Its businesses and consumers will have access to the best and cheapest products the world has to offer; the productivity of its industries will benefit from the challenge of foreign competition. Of course, the gains from specialization increase if other countries allow free trade as well. But the crucial point is that free trade enriches a country regardless of policies or conditions abroad.

A country that opens its markets will reap gains from international specialization even if other countries keep their markets relatively closed.

The proposition that free trade is its own reward is perhaps the most thoroughly examined and repeatedly vindicated one in all of economics.[6] And yet, supporters of free-trade policies rarely talk about it. To a striking extent, the case for free trade in the policy arena bears no relation to the case made by Adam Smith and his successors in the economics profession.

Last year's failed effort to renew fast track authority highlighted the standard refrains made by supporters of trade liberalization. Consider how President Clinton made the case for fast track and trade liberalization during an East Room event on September 10, 1997:

> We now estimate that of the important growth we've enjoyed in the past four and a half years, almost a third of it came because of our expansion of trade. During this period America has once again become the world's number one exporter. . . .
>
> But I emphasize again, this is not a static situation. In order for us to continue to create jobs and opportunities for our own people and to maintain our world leadership, we have to continue to expand exports. We have to use every tool we can get to open foreign markets to our goods and services; we have to continue the fight for open, fair and reciprocal trade; we have to continue to stand against unfair trade practices; and we have to act now to continue this progress to make sure our economy will work for all the American people. . . .
>
> This is about more than economics…. It's about whether other countries will continue to look to the United States to lead to a future of peace and freedom and prosperity … or whether we will be viewed as somehow withdrawn from the world, not interested in leading it, and therefore, not nearly as influential as we might otherwise be for the causes in which we so deeply believe.[7]

Not a trace of Adam Smith can be found in this line of argument. No mention is made of the benefits of open *American* markets to American businesses and consumers. Instead, President Clinton touted the export opportunities to be gained when other countries open their markets. In addition, he cast the issue in foreign policy terms and called for the United

States to show international leadership by participating in trade talks.

President Clinton has been criticized for dressing trade liberalization in mercantilist rhetoric.[8] Actually, though, nothing was particularly distinctive about his pitch for fast track. The twin themes of exports and international leadership dominated the arguments made by virtually all segments of the free-trade camp.

For example, the Web site for America Leads on Trade, a coalition of pro-fast-track businesses, defended fast track and trade expansion as follows:

> Fast track is critical for the country's economic health and continued economic growth, as well as for maintaining U.S. leadership in the global economy.
>
> Fast track is necessary for the United States to reach agreements that tear down barriers to U.S. trade and investment. These agreements will boost the U.S. economy and create high wage jobs by expanding export opportunities for our companies and workers.
>
> Fast track will allow the United States to keep its competitive edge against foreign competitors. If the United States does not have fast track, we risk being left behind. Other countries will continue to open up trade and investments for their own companies and workers, while retaining barriers against U.S. exports.[9]

Calman J. Cohen, president of the Emergency Committee for American Trade (ECAT), a pro-trade group representing large U.S. multinational corporations, adopted almost identical rhetoric when he testified before Congress about fast track's merits:

> It is critically important for us as a nation that the United States maintain its leadership role in pursuing greater global trade and investment liberalization. If the United States abandons this role, U.S. business and workers, as well as our overall national economic interest, will suffer. U.S. businesses risk ceding to their foreign competitors the significant new opportunities in emerging markets which are so vital to our continued health and expansion, as the U.S. market is now mature in many sectors. . . .
>
> If the United States does not retain its leadership role in global trade expansion, American workers face the loss of new and higher-paying jobs that result from greater exports and the growth of the overseas activities of U.S. firms. Instead, workers in the markets of our principal foreign competitors will benefit from expanded trade and job creation.[10]

In a similar vein, C. Fred Bergsten, a leading trade expert and director of the Institute for International Economics, stressed exports in congressional testimony on the need for fast track:

> The American economy can reap enormous benefits from new international trade initiatives that reduce foreign barriers to our exports. Implementation of such a strategy requires Congressional renewal of fast track negotiating authority. . . . Provision of such authority is extremely urgent because our competitors around the world are taking advantage of the absence of American activity, because opportunities for pursuing beneficial trade initiatives abound, and because other countries will not negotiate with us in the absence of fast track.[11]

Why are free traders so reluctant to stress the virtues and benefits of free trade here at home? Their omission is hardly unintentional: It goes to the core of a political strategy dating back over six decades.

The twin themes of exports and international leadership dominated the arguments made by virtually all segments of the free-trade camp.

Free traders hit upon a strategy of reducing trade barriers on a reciprocal basis through trade agreements with other countries.

In 1930, the disastrous Smoot-Hawley Act raised tariffs sharply just as the nation was falling into the Great Depression. Many countries retaliated with tariff hikes of their own, and world trade plummeted: In the United States, exports as a percentage of total goods production fell more than 20 percent between 1929 and 1933.[12]

Free traders interpreted this catastrophe as evidence of a fundamental mismatch between protectionist and free-trade political forces. High tariffs offered concentrated benefits to specific producers and imposed dispersed costs on millions of consumers. Consequently, protectionist interests had both motive and opportunity to organize and apply political pressure, while free-trade interests had neither. As political scientist E. E. Schattschneider wrote in 1935: "Although . . . theoretically the interests supporting and opposed to tariff legislation . . . are approximately equal, the pressures upon Congress are extremely unbalanced. That is to say, the pressures supporting the tariff are made overwhelming by the fact that the opposition is negligible."[13]

To offset their inherent disadvantage in lobbying muscle, free traders hit upon a strategy of reducing trade barriers on a reciprocal basis through trade agreements with other countries. First, by making tariff rates a matter of international negotiations, this approach shifted control over trade policy from the Congress to the executive branch, which was more insulated from parochial special-interest pressures and thus better situated to appreciate the broader national interest in open markets. Furthermore, by linking tariff cuts at home to tariff cuts abroad, the negotiating strategy recruited exporting interests into the free-trade coalition and thus enhanced its lobbying strength.

This strategy was first employed in the Reciprocal Trade Agreements Act of 1934, which authorized the president to cut tariffs up to 50 percent in return for reciprocal cuts by other countries. Under this authority, the United States entered into dozens of bilateral trade deals in the 1930s and 1940s. Later, starting with the General Agreement on Tariffs and Trade (GATT) in 1947, the United States led a series of multilateral negotiating rounds. Eventually, as tariffs diminished in importance and negotiations began to focus on domestic policies that affect trade flows, the simple congressional grant of tariff proclamation authority was no longer sufficient. In 1974, Congress devised a new fast track procedure whereby the president could negotiate changes in U.S. law that would then be subject to an up-or-down vote in Congress.

The negotiating strategy succeeded brilliantly. For its first 150 years or so, the United States maintained a fairly consistent high-tariff policy, culminating in the fiasco of Smoot-Hawley. With the Reciprocal Trade Agreements Act, the United States changed course and committed to a policy of gradual liberalization.[14] Now, over six decades later, the United States maintains a relatively open market and anchors a relatively liberal world trading order.

Over its long and productive history, the negotiating strategy worked by a process of diversion. As I. M. Destler explains:

> One political effect of trade negotiations was to divert some trade policymaking attention from the problems of the American market to the benefits of opening up markets overseas. In fact, the very existence of ongoing negotiations proved a potent rationale for deferring protectionist claims. It gave negotiators (and their congressional allies) a strong situational argument: to impose or tighten an import barrier now, they could assert, would undercut talks aimed at broader American trade advantages. Conversely, the unavailability of this argument in periods between major trade negotiations strengthened the hands of those seeking protection. Trade specialists came to label this phenomenon the "bicycle theory": the trade system needed to move forward, liberalize further, or else it would fall down, into new import restrictions.[15]

The shift from import politics to export politics was not the only diversionary tactic that free traders employed. In addition, the Cold War enabled them to transform trade liberalization from a matter of economic policy into one of diplomacy. Reducing commercial conflicts with our allies served the goal of maintaining Western solidarity against the Soviet bloc; likewise, opening our markets to developing countries would help to keep them in the capitalist fold. Anticommunism thus lent powerful support to an ongoing policy of trade-expanding negotiations.[16] Now that the Cold War is over, we are left with the watery substitute of "showing international leadership," yet even so the foreign policy rationale remains.

Free traders determined that they could not win a head-on domestic political fight to reduce U.S. trade barriers. So they changed the subject and fought instead over promoting exports and resisting communism. Rather than try to defeat protectionist claims, free traders simply diverted attention from them. By shifting the locus of trade policymaking from domestic politics to international negotiations, they shifted the terms of debate and reversed free trade's fortunes.

It is therefore not an accident that supporters of trade liberalization today make little or no mention of low U.S. trade barriers. Their silence may be conscious or it may be a conditioned reflex, but in any event it reflects a long-held strategy of diverting attention from U.S. import markets. According to that strategy, any emphasis on the benefits of free trade at home amounts to leading with your chin.

Protectionist Payoffs

Free traders' failure to defend free trade in the U.S. market is not the only paradox of their traditional political strategy. In an even deeper convolution, the free-trade camp sometimes supports overt protectionism here at home. Most notably, the so-called trade remedy laws—in particular, the antidumping law, the countervailing duty law, and the Section 201 escape clause law—are defended on the grounds that they prevent worse protectionism in the long run.

The trade remedy laws impose special duties or other import relief when particular conditions are met: The antidumping law addresses imports with "unfairly" low prices; the countervailing duty law deals with imports that benefit from foreign government subsidies; Section 201 responds to import surges. Together, they form a system of "administrative protection," as distinguished from the more overt legislative protection of old.

Labor unions, import-competing industries, and their friends in government ardently defend the trade remedy laws as a bulwark of "fair trade." This defense is hardly surprising, but what is striking is the extent to which supposed free traders support these protectionist weapons. Criticism of administrative protection by pro-trade policymakers has been rare and muted. Reform proposals, even in the context of regional or multilateral negotiations, have not ventured beyond marginal tinkering.

No doubt this state of affairs is attributable at least partly to intellectual confusion. The trade remedy laws are notoriously complex and swathed in the rhetoric of fighting unfair trade; both of these facts help to insulate these laws from scrutiny. In addition, though, administrative protection is defended by those who know its faults, on the grounds that it represents the lesser of two evils. As Richard Boltuck and Robert Litan wrote:

> At bottom, the imperfect success with which domestic interests have pursued unfair trade remedies suggests perhaps the only principled reason for the statutes: as a legal "safety valve" for channeling the strongest claimants for protection away from overtly supporting more transparent forms of protection. Thus, the overall effort to enforce the unfair trade practice program can be rationalized to the extent it successfully prevents more unjustified protection than it hands out.[17]

Seen in this light, support for administrative protection complements the diversionary strategy of reliance on trade negotiations. As

The free-trade camp sometimes supports overt protectionism here at home.

Failure to confront protectionism head-on has now become a serious obstacle to continued liberalization.

Destler has noted:

> Politically, the administrative remedies were another means by which Congress could divert trade pressures elsewhere. Legislators could say to those seeking statutory remedies, "Have you looked into the escape clause?" or "It sounds like a dumping case to me. . . ." Rather than trying to arbitrate the many trade claims, legislators could point to "the rules" under which firms and workers were entitled to relief. And officials of the executive branch could do likewise.[18]

The idea is that by occasionally appeasing protectionist pressure within legally established constraints, these laws will prevent a general breakout of protectionist reaction. Once again, the underlying assumption is that head-on confrontation with protectionist forces is politically hopeless. The preferred approach is to finesse claims for import relief by focusing on export expansion; when that diversion fails, measured appeasement is needed to avoid a rout.

Sometimes, though, protectionist pressures have overwhelmed the trade remedy safety valve. Some politically powerful and import-sensitive sectors—most prominently, textiles and agriculture—managed to gain exemptions from GATT rules.[19] In other cases, the United States has negotiated orderly marketing agreements (OMAs) or voluntary restraint agreements (VRAs)—in other words, import quotas.[20] The authors of these deals have often rationalized them as necessary to prevent even more stringent protection from being imposed by Congress.[21] In addition, selective import limits have been used to pave the way for broader trade liberalization.[22] Thus, free traders have countenanced even the most naked forms of protection in the furtherance of their nonconfrontational strategy.

Self-Defeating Strategy

It goes without saying that the traditional free-trade strategy does not appeal to the purist. Then again, very little in the sausage grinder of real-world policymaking does. In defense of their compromises, supporters of the diversion-and-appeasement strategy can point to an impressive record of achievement.

But times have changed. The political and economic conditions in which trade policy is made today are very different from those of a couple of decades ago, let alone those of the 1930s. In the current environment, the traditional free-trade strategy is not nearly as effective as it once was. Indeed, failure to confront protectionism head-on has now become a serious obstacle to continued liberalization.

The old strategy took advantage of Cold War tensions and used them as a cover for trade liberalization. Thus, trade agreements were a means of strengthening the Western alliance by binding us commercially with our European and Japanese allies. And opening our markets to Third World countries could prevent defections to the Soviet camp. Now that the Cold War has ended, however, free traders can no longer rely on foreign policy considerations as their ace in the hole. On the contrary, free trade's association with international agreements and institutions is now generating significant opposition to open markets due to concerns over the loss of U.S. "sovereignty."

In particular, nationalist sentiments are causing an erosion of support for trade liberalization among conservative groups and in the Republican party.[23] The National Rifle Association and Phyllis Schlafly's Eagle Forum both opposed fast track last year, as did the journal *Human Events*.[24] In the GOP, newer members of Congress are especially likely to dissent from the party's free-trade orthodoxy. Although three-quarters of House Republicans supported fast track, most of those from the "class of 1994" with publicly announced positions opposed the measure in 1997.[25]

Meanwhile, the diversion-and-appeasement strategy developed at a time when trade policymaking was an insider's game. As recently as the late 1960s, imports as a percentage of gross domestic product (GDP) totaled less than 5 percent.[26] In that environment, trade policy did not arouse popular passions; it was of concern only to relatively narrow interest groups. Accordingly, it was possible for a small elite of free-trade-oriented power brokers in the executive branch and key congressional committees to manage those interests in technocratic fashion. There was little need to engage the general public on the merits of trade liberalization.

The situation has changed dramatically in recent decades. During the 1980s, concerns about alleged U.S. economic decline and deindustrialization transformed international trade into a subject of major public controversy. Fortunately, the strong performance of the U.S. economy during the 1990s—in contrast to economic stagnation in Japan and chronic double-digit unemployment in Europe—has served to calm the fears that American competitiveness is slipping.

Nevertheless, the subject of international trade—now captured by the buzzword of "globalization"—has become more controversial than ever. Today, fears focus not on Europe or Japan but on developing countries. There is widespread anxiety that competition with poor but industrializing countries undermines the wages of American workers and puts downward pressure on labor and environmental standards. These issues came to the fore during the highly contentious debate over NAFTA and have retained if not increased their potency ever since.

Globalphobia, or broad-based popular hostility to international economic integration, presents a challenge to continued trade liberalization that the old strategy of diversion and appeasement is ill equipped to handle. That strategy is designed to offset protectionist pressures from *producer* interests by (1) recruiting other producers (i.e., exporters) to oppose them and (2) giving in to them under circumscribed conditions. The strategy does not even contemplate *grassroots* opposition to market-opening measures.

Indeed, now that trade policy has emerged from closed doors, the old strategy has actually become self-defeating. To combat public anxiety about open markets, free traders need to address the widespread misconceptions about international trade that give rise to that anxiety. Perversely, though, free traders are actually helping to perpetuate a worldview in which those misconceptions appear plausible.

The traditional free-trade strategy relies exclusively on international agreements as the vehicle for trade liberalization. In trade negotiations, countries offer to reduce import barriers in exchange for other countries' offers of equivalent reductions. In other words, freer markets at home are treated as the price we pay for freer markets abroad. Thus, the rhetoric of trade talks is premised on the mercantilist notion that exports are good and imports are bad.

As discussed earlier, the "exports good, imports bad" mindset turns reality on its head. Imports, not exports, represent the primary benefit of international trade; exports, as production that we do not get to consume and enjoy, are the price we pay for imports. According to the mercantilist mindset, trade is a zero-sum game in which some countries win because other countries lose, and the margin of victory or defeat is measured in positive or negative trade balances. In fact, however, open import markets are an unalloyed good, and benefit a country despite the trade balance and regardless of whether other countries pursue liberal or protectionist trade policies.

The whole theory of trade negotiations thus rests on a whopping economic fallacy. Moreover, it is the very fallacy that lies at the root of most protectionist thinking. Accordingly, trade negotiations uphold and endorse a worldview that is unremittingly hostile to open markets.

This is not a mere theoretical quibble: Mercantilist assumptions and attitudes color every aspect of how trade agreements are currently negotiated and evaluated. Trade negotiators, in the process of championing freer trade, demand "reciprocity" from our trade partners. They insist that a "bad deal" (i.e., one in which we liberalize more than other countries do) is worse than no deal at all. They oppose domestic reforms outside the context of negotiations on the grounds that our own bad policies are "bargaining chips" that should be retained for their exchange value. More ominously, they refer to liberalization without reciprocity as "unilateral disarmament." And when an agree-

Mercantilist assumptions and attitudes color every aspect of how trade agreements are currently negotiated and evaluated.

ment has been reached, free traders focus on the benefits to exporters, not importers. They tout the benefits of reducing foreign trade barriers but say little or nothing about the benefits of reducing our own.

Such pervasive mercantilism might not have been a serious problem when trade policy was hammered out in back rooms by experts and insiders who played the game with a knowing wink. Now, however, trade issues engage the attention and passions of the broader public. The message that trade talks send to ordinary voters is that they are right to perceive imports as a threat and trade deficits as a sign of weakness and decline.

That message is underscored by support for and active use of the trade remedy laws against "unfair" imports. Not only are these laws themselves protectionist, but also they reinforce broader protectionist attitudes. After all, if dumping is objectionable and legally actionable, then fears of cheap imports must be valid. More generally, the trade remedy laws support the protectionist gambit that "fair trade" trumps free trade: Openness to imports is appropriate only when policies and conditions in other countries are "fair," however that term is defined.

The expanding definition of fair trade undermines free trade at two levels. First, it increases the number of reasons for opposing trade liberalization. The emergence of environmental opposition to free trade is a case in point. The asymptotic limit of this trend is that imports are acceptable only when they come from countries with policies and conditions identical to ours. Second, there is an increasing risk that the scope of free traders' appeasement will expand: Obnoxious labor, environmental, and other provisions will be included in trade agreements in order to buy off opposition. The NAFTA labor and environmental side agreements were the first step in this direction, and unlikely to be the last. Thus, even as support for trade liberalization steadily erodes, what passes for liberalization in the future is ever more likely to include measures that increase rather than decrease government intervention in trade flows.

Free traders have paid little attention to how their stealth strategy affects public attitudes about trade.

Free traders have paid little attention to how their stealth strategy affects public attitudes about trade. In the past that oversight was not particularly important, but now public opinion plays a major role in shaping trade policy. And what the public sees in the often heated debates over trade policy is not a contest between true free traders and protectionists but rather a disagreement between optimistic mercantilists and pessimistic mercantilists. The optimists, the supporters of trade liberalization, highlight the new export opportunities created by opening markets abroad; the pessimists dwell on the supposed threat of increased imports caused by opening markets here. Neither side, though, challenges the fallacious "exports good, imports bad" worldview. Consequently, it is not surprising that mercantilist misconceptions are widely shared by the public at large.

Meanwhile, although free traders push optimism when they are trying to sell trade agreements, they unwittingly corroborate the pessimists' fears when they are actually negotiating those deals. Thus, our trade negotiators never tire of claiming that the U.S. market is the most open in the world. Of course, within the logic of trade negotiations, this is a sensible bargaining position, since it supports the conclusion that the United States should not have to "give in" on this or that issue. The American public, though, hears these claims, and many conclude that the United States has been shortchanged by past negotiations. A healthy skepticism about future negotiations is therefore in order. Similarly, U.S. trade negotiators complain incessantly about other countries' trade barriers and their failure to live up to past agreements. Again, this line makes sense at the negotiating table, since it pressures our trade partners to make additional "concessions." The American public hears these repeated complaints, though, and for many they confirm suspicions that the United States is always being out-negotiated or even cheated. Trade liberalization therefore looks like a sucker's game.

Free traders are rightly dismayed by poll numbers that show widespread opposition to further market-opening agreements. But they must recognize that their own strategy bears no small part of the blame for those poll results. Why shouldn't the public view trade as a zero-sum game when even free traders perpetuate mercantilist misconceptions? And why shouldn't the public suspect that we are losers in that game when even free traders are always carping about the "unfairness" of our trade partners? By fostering a broader political culture that is hostile to open markets, the old diversion-and-appeasement strategy has become self-defeating.

Nothing to Hide

Six decades ago, free traders decided that challenging protectionists through head-on confrontation was impossible. So they went "under cover" and pursued trade liberalization under the guise of mercantilist export promotion and internationalist foreign policy. Changing conditions have undermined the effectiveness of the disguise. Moreover, they have undermined the reasons for going under cover at all.

Free traders no longer need to be afraid of making a frontal assault on protectionist positions. Ideologically, the climate of opinion is now dramatically more favorable to free markets in general—and free international markets in particular—than at the time when the old strategy was hatched. And in terms of practical politics, the ongoing globalization of the American economy has greatly strengthened the lobbying muscle of free-trade interests as compared with that of their protectionist opponents.

In the 1930s, free traders were right to believe that their cause went against the prevailing ideological tide. High tariffs had been the rule rather than the exception for the United States: The overall burden on imports imposed by the Smoot-Hawley Act was actually rather mild by historical standards.[27] Protectionism, in short, was as American as apple pie.

The degree to which protectionism dominated the political culture is illustrated in striking fashion by the rhetoric used by interest groups *opposed* to high tariffs. As E. E. Schattschneider observed in his study of Smoot-Hawley Act lobbying:

> When groups did find it discreet to oppose particular duties, they encountered a loyalty to the protective system so great that it was necessary to preface their pleas with tributes to the principle and argue against duties in the name of protection.[28]

To prove his point, Schattschneider cited passages from testimony by opponents of duty increases during public hearings on the Smoot-Hawley bill. Here are some representative examples:

> We not only concede, but we earnestly urge, that every American industry should be given adequate protection. . . .
>
> We are firm believers in the policy of protecting American industries and American workmen. . . .
>
> We are in favor of protection but. . . .
>
> The protective principle itself is not questioned, but. . . .
>
> I am a protectionist, but. . . . [29]

Even the president of the National Council of American Importers and Traders toed the protectionist line:

> The protective principle cannot be disregarded. Whether the rates proposed are to be the same as at present or lower than the present, the suggested rates should as far as possible be based upon the difference in costs of production abroad and costs of production in the United States. . . .[30]

So overwhelming was the protectionist

Why shouldn't the public view trade as a zero-sum game when even free traders perpetuate mercantilist misconceptions?

Today, protectionists are the exception makers and special pleaders.

consensus that the interest group with the clearest and most obvious stake in free trade advocated, not just high tariffs, but the systematic repudiation of the principle of comparative advantage.

Meanwhile, the Great Depression had shattered confidence in the efficacy of free markets in any sphere, international or domestic. The United States was in the midst of a dramatic turn toward government intervention and central planning—from securities and banking regulation to agricultural production controls to industrial cartelization under the National Industrial Recovery Act. Typifying the mood at the time was this statement by Rexford Tugwell, Columbia University economics professor and New Dealer at the Department of Agriculture:

> There is no invisible hand, and there never was. . . . [W]e must now supply a real and visible guiding hand to do the task which that mythical, nonexistent invisible agency was supposed to perform but never did.[31]

In that environment, a forthright call for Adam Smith-style laissez faire in international trade would have been hopeless.

Free traders today operate under greatly more favorable conditions. Today, the dominant (if embattled) tradition is one of trade liberalization, not protection. For over six decades, it has been the official policy of the United States to reduce trade barriers here and abroad. All too often that policy has been honored in the breach, but despite detours and backsliding the basic commitment to opening markets has held.

The free-trade position has been further strengthened by the broader triumph of free markets over the past couple of decades. In the United States, government controls on oil and gas, airlines, railroads, trucking, telecommunications, and financial services have been lifted. Abroad, the changes have been revolutionary: The communist bloc has disintegrated, while many developing countries have abandoned autarkic “import substitution” policies in favor of integration into the international economy. Where once the invisible hand was scoffed at, there is now a truly global consensus that free and open markets are essential to prosperity.

In stark contrast to the situation in the 1930s, supporters of trade liberalization now hold the intellectual high ground. Today, protectionists are the exception makers and special pleaders. Consider the example of a recent speech by Rep. Richard Gephardt, the House minority leader, before the Council on Foreign Relations. While advocating trade restrictions against countries with different labor and environmental policies and conditions, he wrapped his positions in the rhetoric of free trade:

> The mission of free trade is not to cause a spiraling down of standards so we can compete with developing nations.
>
> For trade to be ultimately successful, there must be real compatibility between world trading partners — just as there is between the fifty states in our country.
>
> Free trade also requires free markets. And a component of free markets is free labor markets. That’s why I have fought so hard, and will never give up the fight, to have workers’ rights be an integral component of our trade policy.[32]

Where once free traders were forced to pose as protectionists, now protectionists like Gephardt feel compelled to hide their true colors:

> During my leadership of the effort to defeat the Republican-authored fast track proposal, many in the press and public policy circles misunderstood and misrepresented the basis for my position. To them, fast track was a simple fight between protectionism and internationalism. This myopic approach showed a lack of under-

standing of both the complexity of my position but more important the complexity of the whole question of international trade and economics.

I am a progressive internationalist. I embrace the new internationalism, but. . . .[33]

Protectionists are on the intellectual defensive. There is no longer any reason for free traders to avoid a headlong attack on their opponents' misconceptions. In the hostile environment of the 1930s, discretion may have been the better part of valor. Under present conditions, to stick with the old diversion-and-appeasement strategy is to forfeit a battle of ideas in which free traders have the advantage.

The defenders of the current strategy might counter that free traders have always had the better of the intellectual argument, going all the way back to Adam Smith. Successful policies, however, require more than good ideas. As John Stuart Mill observed, "A good cause seldom triumphs unless someone's interest is bound up in it."[34] And the conventional wisdom in the free-trade camp is that the interests that support open U.S. markets cannot match up politically with those that seek to close them.

That pessimism comes from an analysis of how the costs and benefits of trade policy are distributed. Economist Paul Krugman summarized the familiar line of reasoning in a recent article in *Slate*:

> The benefits of free trade, though substantial, are thinly spread, so it isn't in the interest of any individual to spend a lot of money promoting that cause. Protectionism, by contrast, tends to impose widely spread costs but to confer benefits on concentrated interest groups, who therefore have a strong incentive to lobby for it. . . .[35]

The problem of imbalanced costs and benefits is a real one, and one that extends far beyond trade policy: It underlies special interest lobbying of every stripe. The problem for free traders, though, should not be overstated. Admittedly, the consumers who are the ultimate beneficiaries of free trade cannot organize and lobby effectively.[36] But the fact is that, aside from tourist purchases made abroad, all imports represent a cost—whether as raw materials and components, machinery and equipment, or merchandise to be resold—to some U.S. business. Import-using firms, dependent on foreign suppliers and anxious to keep costs down, have a direct commercial stake in open markets and thus a strong incentive to counter protectionist pressure in Washington. And in recent years, free-trade business interests have been responding to those incentives with increasing effectiveness.

Back when free traders were launching the diversion-and-appeasement strategy, the mismatch in lobbying muscle did indeed seem overwhelming. Schattschneider made this withering assessment of the interests that opposed Smoot-Hawley tariff increases:

> The most conspicuous characteristic of the opposition was its extreme prostration combined with a certain inclination to vanish. Duties on a remarkably large proportion of items covered in the bill encountered no adverse pressure whatever. Importers were active, but could do little more than cover the retreat, while consuming manufacturers, whose resistance might have been effective, fought against the duties on only a small fraction of their materials and supplies. Altogether, the active antagonism of domestic economic groups to the legislation was fitful and feeble, and determined opposition by powerful groups was exceptional.[37]

In the past couple of decades, though, the situation has been very different.[38] In 1982-83, when Congress was considering onerous domestic content legislation for automobiles, a coalition of car dealers and other groups actively opposed the measure. The bill stalled without coming to a vote in the Senate.

To stick with the old diversion-and-appeasement strategy is to forfeit a battle of ideas in which free traders have the advantage.

The number of businesses with a stake in free trade, and the size of the stakes, have multiplied accordingly.

Controversy over auto trade peaked again in 1995, when the United States threatened to impose 100 percent duties against Japanese luxury automobiles in retaliation against Japan's allegedly closed market. The U.S. plants of Japanese auto producers, together with car dealers, waged a lobbying blitz against the sanctions; the United States ultimately backed down from its demand of market share guarantees in Japan and withdrew the sanctions threat.

In 1985, legislation to roll back textile and apparel imports appeared unstoppable—over half of the Senators and over 290 representatives had signed on as cosponsors. A coalition of retailers fought back and managed to strip away enough House cosponsors to enable a presidential veto to be upheld. Restrictive legislation resurfaced in 1990; again importers and retailers launched an active lobbying campaign, and a presidential veto of the bill was sustained. Of particular significance was the decision by the American Apparel Manufacturers Association, representing two-thirds of U.S. apparel production, not to support the 1990 bill. Although some members would have benefited from tightened quotas on apparel imports, others would have suffered from the restrictions on foreign fabrics. Previously, textile and apparel makers banded together in spite of such internal conflicts, but growing dependence of clothing makers on foreign suppliers ruptured the long-standing coalition.[39]

Steel imports have long been subject to special restrictions. In 1988, though, the Coalition of American Steel Using Manufacturers, led by Caterpillar, Inc., organized to oppose extension of the voluntary restraint agreements on steel imports, which were due to expire in 1989. Although President Bush did fulfill a campaign pledge to renew the VRAs, the extension was only for two and a half years, rather than five as the domestic steel mills had urged. And in 1992, the VRAs were allowed to expire.

Throughout the 1990s, the issue of "normal trade relations" (formerly known as "most favored nation" status)[40] with China festered, as each year the president must determine whether to waive Jackson-Vanik amendment restrictions and Congress must decide whether to overturn the presidential waiver.[41] A broad coalition of exporting, importing, and investing companies has lobbied hard—and to date, successfully—to maintain normal trade relations with China.

Of course, there have also been many trade policy setbacks in recent years, and lobbying by anti-protectionist businesses was only one element in the victories. Nevertheless, the dismissal of free-trade lobbying as an exercise in futility no longer squares with the facts.

What explains the change? First, American business is much more dependent upon imports than in the past. Imports amounted to only 4 percent of GDP back in the 1930s, and stayed that way until the late 1960s; now, however, the inflow of foreign goods and services exceeds 12 percent of GDP.[42] The number of businesses with a stake in free trade, and the size of the stakes, have multiplied accordingly.

Beyond increasing import penetration, the rising inward flows of direct foreign investment, especially in manufacturing, have created powerful new constituencies for open markets. Foreign-affiliated firms now account for nearly 6 percent of U.S. gross product originating in private industries, and nearly 5 percent of total private-sector employment. In the manufacturing sector, the foreign-affiliated presence is even greater, accounting for approximately 13 percent of output and 11 percent of employment.[43] With their American factories and American employees (and voters), foreign-owned firms bring significant free-trade clout to policy disputes.[44]

Furthermore, in a silver lining to an otherwise dark cloud, free trade has benefited from the overall expansion of organized political lobbying.[45] For example, the number of national associations increased from 4,900 in 1956 to 23,000 in 1989.[46] A generally greater participation level of corporate interests in policymaking has reduced protectionist lobbies' traditional insider advantage. Also, new information and communications technologies have facilitated the organization of anti-protection coalitions, thus helping to overcome the "concentrated benefits/dispersed costs" problem that makes protectionism politically appealing.

Perhaps the most important reason for the increased vigor of free-trade lobbying is the fact that protection is no longer endemic. Back in the 1930s, nearly all industries that suffered on account of duties on inputs benefited from duties on their outputs. As Schattschneider observed:

> Even if a producer saw clearly where his interests lay in opposition to the system, the whole political logic of the situation is against an attempt to redress the balance by getting a general reduction of the rates on his materials. It is easier to move with the stream by asking for an increase of the duties on the ouput of his industries than it is to provoke conflicts on a wide front by resisting the series of duties levied against him.[47]

By contrast, thanks to multiple rounds of trade negotiations, tariffs today average less than 5 percent, and quantitative restrictions are limited to a few sectors; in general, openness to foreign competition is now the rule rather than the exception. As a result, the cycle of "if you can't beat 'em, join 'em" has been broken.

The rise of free-trade lobbying strength has been accompanied by weakening on the protectionist side. Most obviously, employment in traditionally import-competing industries has fallen off sharply in the past decade or two. As a result, the number of voters for which those industries and their labor unions presume to speak is not what it used to be. Declines in union membership tell the story: Between 1975 and 1995, United Steelworkers plunged from 1,062,000 members to only 403,000; the United Autoworkers (UAW) went from 1,357,000 members to 751,000; the International Ladies' Garment Workers' (ILGWU) Union fell from 363,000 members to 123,000; and the American Clothing and Textile Workers Union (ACTWU) dropped from 254,000 to 129,000.[48]

Meanwhile, the inflows of foreign direct investment undermine protectionist lobbying. Foreign producers can now make an end run around import barriers by building plants here. After a VRA on Japanese automobiles was announced in 1981, the major Japanese car manufacturers began setting up U.S. factories. Over time, the VRA's quantitative restrictions became ineffective. Similarly, in 1994 an antidumping investigation imposed drastic reductions in imports of color photographic paper from Japan; Fuji Photo Film responded by building a plant in South Carolina—which now produces film as well as paper. When foreign companies establish American operations, the threat of protectionism in the future is significantly reduced.

Finally, protectionist interests are now seriously constrained by U.S. commitments under international trade agreements. Maximum tariff levels are bound by GATT negotiations; ad hoc product-specific tariff increases are therefore proscribed. VRAs exploited a loophole in GATT discipline and became a popular protectionist vehicle in the 1980s; the Uruguay Round agreements closed that loophole, though, and VRAs are now banned. Protectionists are thus caught in a squeeze: Their traditional barriers have been whittled away steadily by progressive negotiations, while new outlets for protection are being shut down. The trade remedy laws are the only major remaining option for closing down American markets.

Both intellectually and politically, supporters of trade liberalization today enjoy advantages that their predecessors back in the 1930s could barely have imagined. It is high time that free traders recognize their good fortune, and dare to make use of it.

The rise of free-trade lobbying strength has been accompanied by weakening on the protectionist side.

Turning the Tables

To revive their cause's flagging fortunes, free traders should come out fighting. Abandoning the old diversion-and-appeasement strategy, they should launch a campaign to eliminate U.S. trade barriers unilaterally—that is, regardless of whether other countries make similar reforms.

There are many possible targets of such a campaign.[49] Here are a few that are particularly inviting:

- Antidumping Law. Today this law is the single most effective tool for erecting new protectionist barriers against foreign goods. Although justified as a remedy against "unfair trade," in fact the law itself is blatantly unfair. Its horribly complex and convoluted provisions subject the pricing of imports to far more onerous restrictions than those that apply to domestically produced merchandise. Such discrimination stifles honest competition and gouges U.S. businesses and consumers. Beyond the specific economic damage caused by the law, the fact that it is supported by free traders and protectionists alike strengthens the mercantilist political culture that views cheap imports as somehow inherently unfair.
- High Tariffs. After 50 years and eight rounds of GATT tariff cutting, the United States still imposes restrictive duties on many products. The problem is especially severe with textiles and apparel. Even though the Uruguay Round agreements provide for a 10-year phaseout of quotas, high tariff rates persist. Here are a few examples: sewing thread, 11.4 percent; woven nylon fabric, 14.9 percent; denim fabric, 8.4 percent; cotton blouses, 19.7 percent; T-shirts, 16.5 percent; wool sweaters, 16 percent; babies' shirts and blouses, 22 percent; bathrobes, 14.9 percent; men's swimwear, 27.8 percent; curtains and draperies, 11.3 percent; and women's hosiery, 14.6 percent. Duty rates also remain high in a random assortment of other products, including: light trucks, 25 percent; ball and roller bearings, 9 percent; ceramic wall tiles, 10 percent; napkin rings, 20.8 percent; leather gloves, 12.6 percent; and sneakers and running shoes, 37.5 percent.[50]
- Sugar, Peanut, and Dairy Progams. Import protection is an essential component of larger price support programs for these products. Specifically, imports in excess of specified quota limits are subject to high tariff duties; for example, the bound over-quota tariff rates are 163.8 percent for in-shell peanuts and approximately 125 percent for butter.[51] As a result of these programs, Americans are forced to pay prices far above world levels. For example, the average annual world price for raw cane sugar from 1991 to 1995 ranged from 9.22 to 13.86 cents per pound, while the average annual U.S. price varied from 21.39 to 22.76 cents per pound.[52]
- Jones Act. This law, enacted in 1920, requires all merchandise shipped between U.S. ports to be carried on U.S.-built and U.S.-owned vessels. The elimination of foreign competition raises costs for agriculture, petroleum, and other industries that ship within the United States; the effects are especially severe in Alaska and Hawaii. The International Trade Commission (ITC) has estimated that repeal of the Jones Act would cause the price of previously restricted shipping services to fall by 26 percent.[53]

All of these policies are economically nonsensical. They punish American businesses and consumers; they restrict choices; they drive up prices; they blunt the forces of competition that are responsible for increased productivity and rising standards of living. They are a tax on American economic health for the benefit of narrow interests that cannot possibly justify their special immunity from market discipline. The fact that other countries have similar policies or worse is no reason at all for us to cling to our own folly. The protectionist barriers listed, and others like them, richly deserve all the intellectual and political firepower that free traders can muster.

The fact that other countries have similar policies or worse is no reason at all for us to cling to our own folly.

Meanwhile, free traders can combine an attack on U.S. import barriers with their concurrent efforts against U.S. export barriers. Although we complain about other countries' policies that block American exports, the fact is that U.S. policies are a serious and worsening problem. The proliferation of foreign policy sanctions and the holdover of Cold War export controls impede American companies in markets around the world. According to one recent estimate, unilateral sanctions alone cost $15 billion to $19 billion a year in lost overseas sales.[54] And although touted as a means of promoting democracy and combating terrorism, the growing web of commercial restrictions has had virtually no effect on the regimes being targeted.[55]

This policy fiasco presents a political opportunity. Free traders can propose a comprehensive overhaul of U.S. trade policy on both the import and export sides, uniting importing and exporting interests behind a wide-ranging package of reforms. The same coalition building that trade negotiations achieve can thus be replicated on a unilateral basis.

A campaign for the unilateral reform of U.S. import barriers represents a sharp break from accepted ways of doing things. The interests that benefit from protectionist policies are already well organized; the interests that could challenge those polices are not. It is reasonable to assume that, at least in the short term, victories would be difficult to come by.

But the benefits of such a campaign dwarf the specific gains from dismantling particular remaining trade barriers. Today the United States is already largely open to foreign goods, services, and investment; existing protectionism is at most a marginal hindrance to overall American economic vitality. A 1995 survey of major U.S. trade barriers by the ITC estimated that their elimination would yield a $15.5 billion increase in total output.[56] Even if that calculation were a serious understatement, the fact is that protectionism's present costs are relative peanuts in a $8 trillion economy.

Of far greater importance is preventing a return to seriously protectionist policies. At present, a significant strain of globalphobia runs through American public opinion; the level of anxiety and confusion is especially worrisome given that it exists and grows even in the face of extremely favorable economic conditions. In the event of any kind of sharp economic downturn, anxiety and confusion could quickly mutate into panic, and we can rest assured that politicians will emerge who play to that panic. In such a scenario, a full-scale protectionist spasm is a real possibility.

By acquiescing in and even actively encouraging mercantilist and fair trade fallacies, free traders are now unwittingly increasing the likelihood of such a disastrous turn of events. Now, while times are good, it is vitally important for free traders to change course and squelch globalphobia before it can do serious harm.

In that light, the greatest benefit of a campaign for unilateral liberalization is that it forces a head-on confrontation with protectionist misconceptions. It is impossible to argue for the unilateral elimination of trade barriers without making the case that free trade is its own reward. Free traders would have to explain why imports make us richer, not poorer; why trade deficits are meaningless; why the elimination of particular jobs is sometimes necessary in a healthy economy.[57] The trade debate would no longer be an echo chamber of optimistic and pessimistic mercantilists. Americans would finally begin hearing the other side of the story.

Furthermore, the unilateral approach would enable free traders to frame the debate in terms that give them the natural advantage. Rather than simply defending free trade, they would attack its alternative: protectionism in actual practice. Admittedly, the case for free trade is to some degree hypothetical and counterintuitive; two centuries and counting since Adam Smith have proved that point beyond all debate. On the other hand, the case against protectionism is much clearer: It raises prices, restricts choices, and benefits a favored few at the expense of everyone else. Protectionism is unfair, plain and simple. An attack on U.S. trade barriers would allow free traders to put their opponents on the defensive for a change. The beneficiaries of protection would be forced to explain why they deserve their special privileges, and why the welfare of other American businesses and their workers, not to mention consumers, should be sacrificed on their account.

A campaign for unilateral liberalization would thus enable free traders to reclaim their populist roots. Before the diversion-and-appeasement strategy was devised, the trade debate typically pitted Democrats and the common man for free trade against Republicans and big business for protection. Free traders used explicitly populist rhetoric, condemning tariff walls as bastions of corruption and privilege.[58] Today, unfortunately, free trade is all too often depicted as elitist—

A campaign for unilateral liberalization would enable free traders to reclaim their populist roots.

padding the bottom lines of Fortune 500 multinationals and confirming the cosmopolitan prejudices of highly educated professionals.[59] The stereotype is only confirmed by trade liberalization's reliance on secretive negotiations and international bureaucracies. Unilateralism would help to counteract that stereotype by focusing on those aspects of the free-trade cause with the greatest populist appeal: cutting taxes and eliminating corporate welfare.

Leading by Example

Protectionist countries have changed their policies in order to catch up economically with more open countries.

Skeptics of a unilateral approach might argue that even if freer trade here is a desirable objective, freer trade here and abroad is even better. By eliminating trade barriers without bargaining for other countries to do the same, the United States would be wasting a valuable opportunity to promote liberalization abroad. We should kill two birds with one stone and use our remaining trade barriers as leverage to achieve freer trade here and around the world.

This argument against unilateral liberalization rests on two assumptions: first, that international negotiations are the only (or at least the primary) means by which trade barriers abroad are reduced; and second, that successful negotiations require offers of liberalization by the United States to spur reciprocal offers by other countries. Both assumptions are false.

The past couple of decades have witnessed dramatic reductions in trade barriers around the world, and by and large these bold moves toward freer trade have occurred outside the context of trade negotiations. Countries as diverse as Australia, New Zealand, Argentina, Chile, and the Philippines have decided unilaterally to forsake the old autarkic model of import substitution in favor of integration with the global economy. The driving force for sweeping change in those countries was not tough bargaining or the prospect of a quid pro quo but rather the realization that protectionism was causing economic stagnation. The same can be said of our NAFTA partner Mexico: It began dismantling protectionist policies on its own in the mid-1980s, and those initial unilateral reforms were actually far more sweeping than the additional reforms it promised under NAFTA.[60]

Recent experience thus disproves the conventional wisdom that negotiations are the primary driver of trade liberalization abroad. Unilateral reforms have been far more significant. And those reforms have come when politicians perceived that their countries were falling behind freer, more dynamic economies. In other words, protectionist countries have changed their policies in order to catch up economically with more open countries. Accordingly, the most important thing that the United States and other relatively open-market countries have done to encourage liberalization elsewhere is to set a good example. It follows, therefore, that the United States can do more to promote continued liberalization by dropping its remaining barriers than it can by hanging onto them. Indeed, it is difficult to picture anything that would more greatly enhance the prospects of free trade around the world than a consistent and principled commitment to open markets on the part of the world's largest and most prosperous economy.

Moreover, the United States can continue to play a leading role in trade negotiations even if it lacks protectionist policies to offer as concessions. Consider the recent WTO agreements on telecommunications and financial services. Both agreements represent important breakthroughs, and both were negotiated in the absence of U.S. fast track authority. How was this possible? Fast track was unnecessary because none of the U.S. commitments under either agreement required changes in legislation. The major U.S. "concession" was to agree to "lock in" current levels of openness. Furthermore, participation by the United States lent legitimacy to the agreements that otherwise would have been lacking, thereby increasing other countries' confidence in the integrity of each others' commitments. Thus, U.S. involvement was desirable apart from any considerations of concessions.

A similar dynamic operated in the NAFTA negotiations, Ross Perot's hysterics notwithstanding. Before the agreement, U.S. tariffs against Mexican goods averaged only 2 percent. The chief advantage that Mexico gained from the United States by entering NAFTA was the guarantee that open access to the U.S. market was now secured by an international agreement. Actually, the primary benefit of NAFTA from Mexico's perspective had nothing to do with the United States. The main reason President Salinas sought a free-trade agreement was to consolidate *Mexico's* prior unilateral reforms and insulate them from change by future administrations.[61]

These overlooked facts suggest a new, more promising model for trade negotiations—one that is free of the corrupting dogmas of mercantilism and fair trade. A United States without trade barriers clearly would not seek to "win" at the bargaining table by "getting" more than it "gives." Nor would it seek to erect new barriers to trade by making market access contingent on harmonization of environmental, labor, or other policies. Instead, it could define negotiating objectives—for example, reductions of tariffs, reforms of antidumping laws, rules on the treatment of foreign investment, rules against the protectionist misuse of health and safety standards, and so on—and offer to elevate its own unilaterally adopted free-trade policies into binding international commitments, provided that some "critical mass" of other countries agree to exceed a defined minimum threshold of liberalization.

The viability of such an approach is not theoretical: The United States pursued a very similar strategy in both the telecommunications and financial services talks and it worked. In those talks, though, the U.S. position was couched in terms of demands for reciprocity. Under the proposed model, the United States would abandon that kind of rhetoric and focus instead on its commitment to free-trade principles. The U.S. position would be as follows: We pursue free-trade policies at the national level because we believe it is in the U.S. interest to do so, but we will not commit ourselves internationally to any agreement unless it is reflects a sufficiently serious international commitment to free-trade principles.

It is thus possible for the United States to remain engaged in the process of negotiated liberalization, but without fostering misconceptions that undermine free trade in the long term. The United States can still exert powerful leverage in negotiations—most important, by refusing to participate in watered-down agreements—but without clinging to wrongheaded policies simply because other countries have not yet gotten rid of theirs. In short, the United States can enjoy the best of both the unilateral and the multilateral worlds. Unilateral liberalization, far from undermining trade negotiations, can put them on a much sounder footing.

Conclusion

Many supporters of free trade will be reluctant to abandon a strategy that has achieved real-world results for over six decades. But a sober assessment of the facts demonstrates that the diversion-and-appeasement strategy has outlived its usefulness. It is contributing to popular anxieties about globalization. It is bending trade negotiations away from true liberalization and toward international bureaucratization. In short, it is creating more problems than it solves.

Admittedly, it is possible that we will still be able to muddle through without a major change of course. Powerful intellectual and economic forces may continue to push us toward freer trade—or at least prevent a protectionist relapse—in spite of ourselves. The threat of globalphobia may fizzle on its own. Opponents of harmonization run amok may stop it even with the terms of the debate stacked against them.

But there is a better way. Free traders have it in their power to promote their cause, here and abroad, with much greater effectiveness than at present. They can seize the intellectual initiative. They can frame issues in ways that give them the natural political advantage. They can set an example for the rest of the world to follow. And best of all, they can achieve these things by standing up for what they know to be true.

At the messy margins of policymaking,

The United States can enjoy the best of both the unilateral and the multilateral worlds.

The diversion-and-appeasement strategy has outlived its usefulness.

there are frequently tradeoffs between sticking with principles and getting things done. But free traders must recognize that now is not the time for compromise; now is not the time for diversion and appeasement. After six decades, compromise has become self-defeating. Free traders today are in that happy circumstance when holding to their ideals is the most intensely practical thing they can do.

Notes

1. For an analysis of fast track authority, see Daniel T. Griswold, "Fast Track to Freer Trade," Cato Institute Briefing Paper no. 34, October 30, 1997.

2. "Freer Trade Gets an Unfriendly Reception," *Business Week*, September 22, 1997, p. 38. It should be noted that polling results on trade issues are inconsistent and appear highly sensitive to how questions are formulated. Thus, in a nationwide survey conducted by EPIC/MRA, one-half of the respondents opposed "giving" the president fast track authority by a 49-41 margin, while the other half favored "renewing" fast track by a similar 48-41 margin. "Poll Sees Some Erosion in Public Support for Free Trade," *National Journal's CongressDaily*, May 14, 1998. Nevertheless, surveys do reveal clearly and consistently that a significant portion of the American public seriously misunderstands the effect of international trade and investment on the U.S. economy.

3. See, for example, Brian R. Russell, "Getting Back on Fast Track," *Journal of Commerce*, November 19, 1997; Julie Kosterlitz, "The Pinstripers Ignored 'Ordinary Americans,' " *National Journal*, November 1, 1997, p. 2191.

4. Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (New York: Modern Library, 1937) p. 17.

5. Ibid., p. 424.

6. For an excellent account of the free-trade doctrine's development and its unflagging vitality in the face of numerous challenges, see Douglas A. Irwin, *Against the Tide: An Intellectual History of Free Trade* (Princeton: Princeton University Press, 1996).

7. "Remarks by the President on Fast Track Authority," September 10, 1997, available at http://www.pub.whitehouse.gov.

8. See, for example, Ted van Dyk, "Off Track on Trade," *New York Times*, November 7, 1997; Marc Levinson, "Kantor's Cant: The Hole in Our Trade Policy," *Foreign Affairs* 75, no. 2 (March-April 1996): 2.

9. http:www.fasttrack.org.

10. Testimony before the Subcommittee on Trade of the Committee on Ways and Means, House of Representatives, September 30, 1997.

11. Testimony before the Committee on Finance, United States Senate, June 3, 1997. Although Bergsten did go on to mention the benefits of imports, the overwhelming emphasis of his testimony was on export expansion.

12. I. M. Destler, *American Trade Politics*, 3d ed. (Washington: Institute for International Economics and the Twentieth Century Fund, 1995), p. 11.

13. E. E. Schattschneider, *Politics, Pressures and the Tariff* (New York: Prentice-Hall, 1935), p. 285.

14. For an analysis of how the Reciprocal Trade Agreements Act transformed U.S. trade politics, see Douglas A. Irwin and Randall S. Kroszner, "Interests, Institutions, and Ideology in the Republican Conversion to Trade Liberalization, 1934-1945," National Bureau of Economic Research Working Paper 6112, July 1997.

15. Destler, pp. 17-18.

16. For an interesting if protectionist-oriented analysis, see Alfred E. Eckes, Jr., *Opening America's Market: U.S. Foreign Trade Policy since 1776* (Chapel Hill: University of North Carolina Press, 1995), pp. 157–77; see also Charles K. Rowley, Willem Thornbecke, and Richard E. Wagner,

Trade Protection in the United States (Brookfield, Vt.: Edward Elgar, 1995), p. 165.

17. Richard Boltuck and Robert E. Litan, eds., *Down in the Dumps: Administration of the Unfair Trade Laws* (Washington: Brookings Institution, 1991), p. 13.

18. Destler, p. 24.

19. Note that the Uruguay Round agreements provided for the reintegration of textiles into the GATT system after a 10-year transition period. They also imposed modest discipline on agricultural export subsidies and required the conversion of agricultural import quotas into tariffs.

20. For example, in the 1970s the United States negotiated OMAs on specialty steel and Japanese televisions; in the 1980s it entered into VRAs on autos, carbon steel, and machine tools.

21. In the case of the 1981 VRA on Japanese automobiles, U.S. Trade Representative Bill Brock later stated that protectionist presssure from Congress made some kind of import limits unavoidable. " 'The Congress was going crazy,' Brock says. 'We had to keep from falling into the abyss, with a major draconian action.' " Steve Dryden, *Trade Warriors: USTR and the American Crusade for Free Trade* (New York: Oxford University Press, 1995), p. 268.

22. For example, the Kennedy administration negotiated comprehensive import restrictions on textiles in a bid to ease passage of the Trade Expansion Act of 1962 that launched the Kennedy Round of GATT talks. Similarly, Special Trade Representative Robert Strauss convinced President Carter to sign off on the OMA on Japanese televisions to maintain congressional support for the Tokyo Round GATT negotiations. See Dryden, pp. 54-55, 214-15.

23. For a perceptive analysis of this trend, see Peter Beinart, "The Nationalist Revolt," *New Republic*, December 1, 1997, pp. 20-26.

24. Ibid., p. 22.

25. Ibid., p. 21.

26. In 1967, imports amounted to only 4.79 percent of GDP; in 1968 the figure climbed to 5.12 percent. See http://www.bea.doc.gov/bea/dn/0897nip2/tab1.htm.

27. Under Smoot-Hawley, duties as a percentage of dutiable imports were the highest in U.S. history, peaking at roughly 60 percent. However, approximately two-thirds of U.S. imports remained duty-free; accordingly, duties as a percentage of total imports came to only around 20 percent. By contrast, the 1828 "Tariff of Abominations" raised duties to over 55 percent of imports; after three decades of steady liberalization, Civil War tariff hikes raised duties from around 15 percent to over 45 percent. See Bruce Bartlett, "The Truth about Trade in History," in Edward L. Hudgins, ed., *Freedom to Trade: Refuting the New Protectionism* (Washington: Cato Institute, 1997), p. 13, Figure 1.

28. Schattschneider, pp. 140-41.

29. Ibid., pp. 141-43.

30. Ibid., p. 141.

31. Quote taken from John M. Jordan, *Machine-Age Ideology: Social Engineering and American Liberalism 1911-1939* (Chapel Hill: University of North Carolina Press: 1994), p. 250.

32. Hon. Richard A. Gephardt, "Preserving World Capitalism for the Next Century: A Plan of Action," Address to the Council on Foreign Relations, March 3, 1998, available at http://www.house.gov/democrats/speeches/imf2.html.

33. Ibid.

34. Quoted in Jadgish Bhagwati, *Protectionism* (Cambridge, Mass.: MIT Press, 1988), p. 18.

35. Paul Krugman, "Who's Buying Whom? The Milliken Man March on Washington," *Slate*, posted September 25, 1997.

36. Indeed, as poll numbers show, many consumers

do not even perceive that free trade is in their interest.

37. Schattschneider, pp. 114-15.

38. The best analysis of the rise of free-trade lobbying, which, unfortunately, is somewhat outdated, is I. M. Destler and John S. Odell, *Anti-Protection: Changing Forces in United States Trade Politics* (Washington: Institute for International Economics, 1987).

39. See Clyde Farnsworth, "Senate Votes Import Curbs but Veto Looms," *New York Times*, July 19, 1990.

40. As a result of the Internal Revenue Service Restructuring and Reform Act of 1998, "most favored nation" status has been renamed "normal trade relations."

41. The Jackson-Vanik amendment, a holdover from the Cold War, prohibits normal trade relations with countries that do not allow free emigration. Its original target was Soviet restrictions on Jewish emigration. The president can waive the sanctions annually, but then Congress can pass legislation to overturn the waiver. In the case of China since the 1989 Tiananmen Square massacre, the Jackson-Vanik process has become a pretext to link China's trade status to broad issues of human rights and nuclear proliferation.

42. The relevant figures are available at http://www.bea.doc.gov/bea/dn/0897nip2/tab1.htm.

43. For foreign affiliates' share of total output and employment in 1996, and of manufacturing employment in 1996, see Mahnaz Fahim-Nader and William J. Zeile, "Foreign Direct Investment in the United States," *Survey of Current Business*, June 1998, pp. 47, 50. Foreign affiliates' share of manufacturing output in 1994 was derived from Fahim-Nader and Zeile, p. 47, and *Statistical Abstract of the United States: 1997* (Washington: Bureau of the Census, 1997), p. 448.

44. Of course, foreign-affiliated firms can and sometimes do seek protection of their American operations from outside competition. For example, French-owned Bic filed a U.S. antidumping petition against cigarette lighters from Thailand and China (its parent company filed a similar case in the European Union). Nevertheless, as a general matter foreign-affiliated companies tend to take generally free-trade positions, especially with respect to policies that affect the countries in which their parent companies are headquartered.

45. See Destler and Odell, pp. 28-30.

46. Jonathan Rauch, "The Parasite Economy," *National Journal*, April 25, 1992, p. 980.

47. Schattschneider, p. 128.

48. *Statistical Abstract of the United States: 1997*, p. 440; 1975 figures for UAW and ACTWU membership were taken from Leo Troy and Neil Sheflin, *U.S. Union Sourcebook*, 1st ed. (West Orange, N.J.: Industrial Relations Data and Information Services, 1985), Table 3.71.

49. For a review of U.S. protectionist policies, see Stuart Anderson, "Unclean Hands: America's Protectionist Policies," in Hudgins, ed., *Freedom to Trade*, p. 49; see also *Cato Handbook for Congress: 105th Congress* (Washington: Cato Institute, 1997), chapter 52, p. 507.

50. Duty rates are for representative products (i.e., the verbal description may encompass multiple tariff items). The rates are the ultimate bound rates pledged by the United States in Schedule XX of the Uruguay Round agreements. Some of these rates will not be fully phased in until 2004.

51. The above-quota tariff rate for in-shell peanuts is the bound rate as indicated in Schedule XX of the Uruguay Round agreements. The above-quota tariff rate for butter is ultimately bound at $1.541 per kilogram, or approximately 125 percent ad valorem. See *The Economic Effects of Significant U.S. Import Restraints: First Biannual Update*, International Trade Commission Publication 2935, December 1995, p. 4-9.

52. *Commodity Programs: Impact of Support*

Provisions on Selected Commodity Prices, GAO/RCED-97-45, p. 18.

53. International Trade Commission Publication 2935, p. 5-4.

54. Gary Clyde Hufbauer, Kimberly Ann Elliott, Tess Cyrus, and Elizabeth Winston, "U.S. Economic Sanctions: Their Impact on Trade, Jobs, and Wages," Institute for International Economics Working Paper, 1997, available at http://www.iie.com/sanctnwp.htm.

55. For an analysis of the track record of U.S. sanctions against Burma, see Leon T. Hadar, "U.S. Sanctions against Burma: A Failure on All Fronts," Cato Institute Trade Policy Analysis no. 1, March 26, 1998.

56. International Trade Commission Publication 2935, page xi.

57. For an analysis of the trade deficit, see Daniel T. Griswold, "America's Maligned and Misunderstood Trade Deficit," Cato Institute Trade Policy Analysis no. 2, April 24, 1998.

58. The following passage from the protectionist trade historian Alfred Eckes makes the point:

> Democratic orators spoke at length about monopolies and robbery. During debate over the proposed Dingley Tariff in 1897, Senator Roger Q. Mills, a free trade Democrat from Texas, claimed that the bill was a "stupendous system of legislative rapine and robbery." In 1912 Democratic presidential candidate Woodrow Wilson attacked "our tarriff-walled system of privilege" and asserted that "the bills of the Republican party were paid by businessmen who wanted a high tariff." During World War I Senator Oscar Underwood, of Alabama, who as chairman of the House Ways and Means Committee had authored a substantial reduction in tariff rates, accused Republicans of giving "the selected few the right to monopolize and abuse the American market." And Cordell Hull of Tennessee claimed that Republican tariff policy "involves a corrupt partnership between politics and vested industrial interests, the poison of which constantly breeds national scandal."

Eckes, p. 35 (footnotes omitted). Interestingly, it was Cordell Hull who later did more than anyone to conceive and launch the diversion-and-appeasement strategy. As Franklin Roosevelt's secretary of state, Hull was the mastermind behind the Reciprocal Trade Agreements Act of 1934, which initiated the process of pursuing trade liberalization through international negotiations.

59. See, for example, Patrick J. Buchanan, *The Great Betrayal: How American Sovereignty and Social Justice Are Being Sacrificed to the Gods of the Global Economy* (New York: Little, Brown, 1998).

60. See Paul Krugman, *Pop Internationalism* (Cambridge Mass.: MIT Press, 1997), pp. 163-64.

61. See Dryden, p. 369, for a description of Salinas's motivations for proposing a free-trade agreement to President Bush.

CENTER FOR TRADE POLICY STUDIES

The mission of the Cato Institute's Center for Trade Policy Studies is to increase public understanding of the benefits of free trade and the costs of protectionism. The center publishes briefing papers, policy analyses, and books and hosts frequent policy forums and conferences on the full range of trade policy issues.

Scholars at the Cato trade policy center recognize that open markets mean wider choices and lower prices for businesses and consumers, as well as more vigorous competition that encourages greater productivity and innovation. Those benefits are available to any country that adopts free trade policies; they are not contingent upon "fair trade" or a "level playing field" in other countries. Moreover, the case for free trade goes beyond economic efficiency. The freedom to trade is a basic human liberty, and its exercise across political borders unites people in peaceful cooperation and mutual prosperity.

The center is part of the Cato Institute, an independent policy research organization in Washington, D.C. The Cato Institute pursues a broad-based research program rooted in the traditional American principles of individual liberty and limited government.

For more information on the Center for Trade Policy Studies,
visit www.freetrade.org.

Other Trade Studies from the Cato Institute

"The Blessings of Free Trade" by James K. Glassman, Trade Briefing Paper no. 1 (May 1, 1998)

"America's Maligned and Misunderstood Trade Deficit" by Daniel T. Griswold, Trade Policy Analysis no. 2 (April 24, 1998)

"U.S. Sanctions against Burma: A Failure on All Fronts" by Leon T. Hadar, Trade Policy Analysis no. 1 (March 26, 1998)

"The Fast Track to Freer Trade" by Daniel T. Griswold, Cato Institute Briefing Paper no. 34 (October 30, 1997)

Freedom to Trade: Refuting the New Protectionism, edited by Edward L. Hudgins (July 1997)

CATO INSTITUTE