THE GRAMM—KEMP TRADE BILL: HOW TO OPEN MARKETS TO U.S. EXPORTS

The U.S. trade deficit has provoked a flurry of legislation on Capitol Hill, and a trade bill of some sort likely will be passed this year. True to form, many of the bills are blatantly protectionist. Others are well-intentioned, but would produce few short-term benefits and many long-term problems. One bill (S. 590, H.R. 1282), however, demonstrates an unusual combination of sound economics and political sensitivity. Introduced by Senator Phil Gramm (R-TX) and Representative Jack Kemp (R-NY), the bill seeks to expand U.S. access to foreign markets through the establishment of a North American Free Trade Area (FTA). The bill also would require a Congressional Budget Office consumer impact study for all proposed trade legislation, and use the leverage of the International Monetary Fund (IMF), the World Bank, and other international lending institutes to promote open markets. Policy makers concerned about America's economic future should look carefully at this legislation.

The U.S. is increasingly dependent on foreign trade for its economic prosperity. Keeping America's own markets open and expanding access to foreign markets thus is critical. The strategy of the Gramm-Kemp bill is for America to open up markets by making free trade agreements with its neighbors, rather than rely only on worldwide trade agreements--where a few countries can thwart progress. Under a North American FTA arrangement, the U.S., Canada, Mexico, and the non-communist Caribbean Basin countries would remove barriers impeding mutual trade. This would give American companies access to foreign markets of over 140 million people and nearly $600 billion in gross national product. Twenty percent of world trade is accounted for by the U.S. and its North American neighbors.

The Reagan Administration currently is negotiating an FTA with Canada. In addition, the Caribbean Basin Initiative (CBI) of 1984 was meant to promote economic growth through open markets. Unfortunately, the exclusion from the CBI of the Caribbean's major commodity, sugar, and special restrictions on textile trade, have blunted the CBI's effectiveness and hurt many countries in the region.

The Gramm-Kemp legislation would add new life to the flagging quest for freer trade. The improved economic efficiency resulting from a North American FTA would surround the U.S. with a ring of prosperous countries better able to purchase U.S. goods and to provide the U.S. with valuable products. A North American FTA, moreover, would strengthen U.S. security. The communist takeover of Cuba and Nicaragua demonstrates that economic stagnation often promotes political instability. The economic crisis in Mexico ultimately could lead to a pro-Soviet communist dictatorship in a country of 80 million on America's doorstep. A North American FTA could help head off such a disaster.

The Gramm-Kemp bill would extend the FTA idea beyond North America, offering special phase-in provisions to encourage developing countries to seek free trade with the U.S. This would enable the U.S. better to deal with non-free trade nations. For example, FTAs with smaller Asian countries would put Japanese goods at a disadvantage in those markets, giving Japan an incentive to seek similar arrangements.

The Gramm-Kemp bill also would require the Congressional Budget Office to prepare a "trade impact statement" for any trade legislation proposed in Congress. This would uncover the costs of protectionism and help lawmakers to avoid potential serious harm to the American economy from unwise trade bills.

Further, the Gramm-Kemp bill would instruct the Executive Branch to oppose loans by the International Monetary Fund, World Bank, and other international lending agencies to countries that restrict sales of U.S. products. This implies that the White House would have to oppose IMF loan conditions that require debtor countries to restrict imports as a means of accumulating capital to pay their debts. Import restrictions hit American exports while perpetuating economic stagnation in poorer countries.

No bill before Congress would quickly eliminate the trade deficit. But in the rush to "do something," Congress could pass legislation that would restrict the U.S. market and make other countries more determined to keep their markets closed as well. By using the leverage of bilateral free trade areas, however, the Gramm-Kemp bill takes a politically mature strategy to the trade situation. Lawmakers should recognize the benefits of this approach to trade policy.

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