

NAFTA SIGNALS A WARNING FOR GATT

The Clinton Administration's political problems in securing congressional assent to the North American Free Trade Agreement (NAFTA) should be a warning to supporters of the Uruguay Round proposals to widen the General Agreement on Tariffs and Trade (GATT). The near-success of protectionists in the NAFTA debate has emboldened them to seek other ways of restricting international competition. That could spell trouble for ratification of the new GATT agreement now being negotiated.

The GATT represents the closest thing to a uniform commercial code for world trade, and a process for settling disputes, although the almost half-century-old organization in Geneva has never had the authority or scope of other international bodies. The Uruguay Round of negotiations would expand GATT beyond merchandise to the increasingly important trade in services and intellectual property. It also would resolve old problems from decades of managed trade in agriculture and textiles, and strengthen the authority of GATT to settle trade disputes. This round of negotiations has consumed more than seven years and all parties agree it must conclude this month. Congress then has to make necessary changes in U.S. law to implement the agreement; as with the NAFTA, this would be done under the "fast track" rules, which preclude further amendments.

A new GATT agreement will be vulnerable to irresponsible protectionist claims, especially as key interest groups feel threatened by the likely shape of the pact. For instance, organized labor has very little to gain from the Uruguay Round because the biggest gainers in the United States will be industries in which unions are generally weak. In addition, textile firms stand to lose all the special quotas the U.S. government has granted them during the past twenty years — privileges that have been very costly to U.S. consumers. Other protected industries feel the proposed new dispute settlement rules will leave them at a disadvantage. The contentious NAFTA debate also aroused a new populist form of "economic nationalism." The slow growth in jobs since 1991 has fueled this argument against open trade. A recent Conference Board survey found one out of five American households experienced unemployment in the past twelve months. Ross Perot blames this unemployment on cheap foreign labor and has promised to campaign at the factory gate of every company that restructures its employment in the future. Lost in the equation, unfortunately, are the job generation and improved productivity that come with more open trade. Moreover, trade critics ignore the inconvenient truth that most unemployment arises from domestic economic competition.

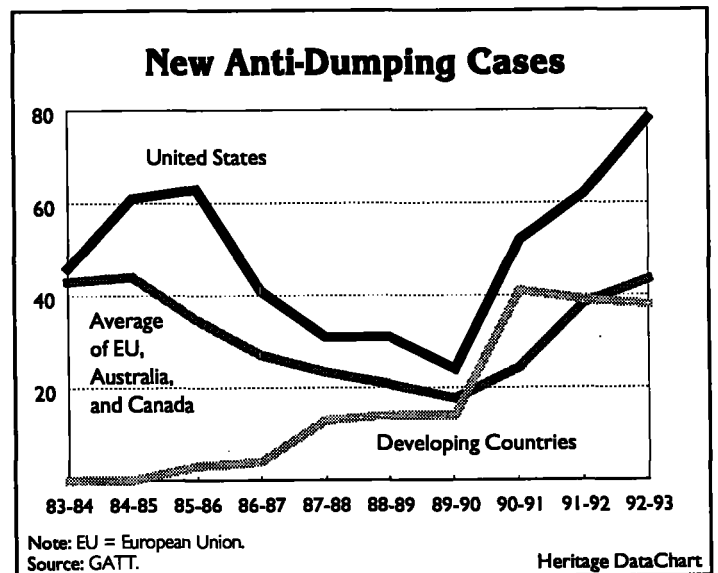
The main lesson to be learned from the NAFTA debate is that trade agreements must be defended on more specific grounds than their general benefits to Americans. Most discussions, articles, and editorials about the Uruguay Round emphasize general benefits from expanding international rules to intellectual property and service exports, and reducing subsidies in agriculture. As in the case of NAFTA, the gains to the largest and most rapidly growing sectors of the U.S. economy are underscored. But the political process cannot be taken for granted. NAFTA was almost beaten because it was portrayed as benefiting some Americans at the cost of other Americans' jobs.

The NAFTA debate showed the weakness of the argument for generalized benefits when it is made strictly as a pragmatic, businessman's case. A stronger case might be that the real evil of undermining GATT would be that the U.S. government, with its enormous powers to restrict trade, becomes a tool of special interests when it is not

bound by international agreements designed to let all Americans trade freely. The populist slogan, "Protect American Jobs," obscures the point that America cannot be made stronger by protecting some businesses from competition at the expense of consumers and the jobs of other Americans.

The bottom line for opponents of GATT is not protecting American jobs, but protecting the profits of *some* American businessmen. Trade restrictions redistribute wealth in favor of older, less innovative producers. The cost of such special interest protection is underscored by two recent studies. The U.S. International Trade Commission released a report in November showing that Americans lost \$19 billion in 1991 because of "significant" trade restrictions, of which between \$15.3 billion and \$16.4 billion alone went to the textile and apparel industry. The Institute for International Economics in a similar study estimates American families must pay \$32 billion extra for the products of 21 industries so that certain firms can profit from trade restrictions.

Criticisms of the Uruguay Round, particularly from advocates of "jobs" and "fairness," are now starting to appear. For instance, Clyde Prestowitz, president of the Economic Strategy Institute and a prominent supporter of trade restrictions, wrote a detailed criticism of the Uruguay Round in the November 28 *Washington Post*, suggesting that "bilateral negotiations with key trading partners" would better serve "many U.S. industries" than the multinational GATT agreement. While acknowledging the advantage of openness, Prestowitz argues for more aggressive use of measures to close the U.S. market whenever the U.S. government alone deems a foreign company to be competing "unfairly." A former Bush administration GATT negotiator, Eric Garfinkel, now with the Council on Competitiveness, attacked the agreement's reform of anti-dumping laws in testimony before the House Ways and Means Committee early in November as "not balanced or well reasoned." Since they wish to preserve the U.S. government's power to protect certain U.S. industries — at great costs to other U.S. industries and consumers — GATT's new opponents are attacking the underlying GATT principle of transparent international trade rules, treating all producers equally and restraining governments from manipulating economic outcomes. As the chart shows, more and more governments have started to use the anti-dumping strategy since 1988, and the long-run loser will be the world's largest exporter, the United States.



The issue at stake in the Uruguay Round is a fundamental economic fact — the free market is better able than government to pick winners and losers. Competition is often described by economists as a process of "creative destruction," in that a country's standard of living rises as new, more efficient production processes replace other, less efficient ones. Open, rule-based trade encourages this beneficial process. But when governments intervene to get specific results, and to protect vulnerable firms, as in "anti-dumping" cases, where local producers often misuse "fairness" arguments to persuade their governments to block imports, the economic gains from trade are eliminated. The "proof" offered by protectionists to justify restrictions is plausibly based on quantitative effects — protection avoids a decline in market share, job losses, or reduced profitability. But these "results-oriented" arguments focus on narrow segments of the economy and miss the whole picture of economic progress, as well as the genuine fairness of equal rules.

Finally, a valid, populist case can be made in favor of GATT: Washington has no right to pick some Americans to win and every other American to lose. When the U.S. government has the power to grant protection, powerful interests will lobby successfully to enrich themselves at the expense of other Americans. International agreements to guarantee open, rule-based trade and competition make special interest lobbying more difficult, allowing the American people to pick their winners and choose the best products for themselves.

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