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Free Trade Is Dead. Long Live Free Trade

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The Democratic Party under the leadership of President Bill Clinton was largely pro-trade and pro-globalization. Witness the 102 Democratic votes for NAFTA in November 1993 or the 105 Democratic votes in favor of normalized trade relations with China in July 1999. But after major losses in 2000, the party spent six years completely out of power and became increasingly hostile to globalization. There were just 15 Democratic votes in the House in favor of the Dominican Republic–Central America Free Trade Agreement (DR-CAFTA) in 2005 and 22 in favor of the Oman trade agreement in 2006.

Republican support for free trade has slipped markedly as well. While House Republicans voted overwhelmingly for recent trade deals such as DR-CAFTA, Oman, and Bahrain, there is much more to promoting free trade than trade agreements. A number of other indicators are more worrisome. Consider the relatively large numbers of Republican votes in the House that supported these policies:

- Forcing China's state-owned oil company, CNOOC, to back away from its successful bid to buy the oil company Unocal in August 2005;
- Forcing Dubai Port World to withdraw its bid for U.S. ports in early 2006;
- Requiring or authorizing punitive measures against China for pegging the yuan to the dollar;
- Maintaining current agriculture programs, when reform could break the Doha logjam; and
- Requiring the Department of Agriculture to require country of origin labeling.

In the months since the 2006 election, both Republicans and Democrats have sounded increasingly skeptical of trade. For example, GOP presidential candidate and sitting House Member Duncan Hunter recently said in a speech to conservatives, "And I can tell you that as president of the United States, I will junk the bad trade deal that we currently have with China. More importantly, I'll stop their cheating on the one that we have right now. We're going to have a new policy with respect to trade deals."

This spring, representatives and senators will have their true trade colors tested during a critical time. The President's trade promotion authority (TPA) expires on June 30 of this year, just as the World Trade Organization (WTO) is inching toward agreement on its Doha round. All the rhetoric about "protecting" Americans from trade will be put to the test every time a bilateral deal is voted on, and especially when Doha and TPA votes are taken.

For the record, the last five-year renewal vote on TPA was back in 2002. There were 190 Republican "yeas" and 27 Republican "nays," compared to 25 Democratic "yeas" and 183 Democratic "nays."

Sadly, even if a *negotiating* breakthrough in the Doha round were to occur today, the legal details

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and review time would delay a vote on the final agreement in Congress until after the current TPA expires. So the real challenge is this: Will Congress grant American negotiators the authority to close this multilateral deal?

Those who have followed the tortuous progression of Doha know that special interest groups in many countries are scheming to abort this round, notably European agribusiness. The protectionists in Europe are undoubtedly dragging their feet at the negotiating table, hoping that dithering by the U.S. Congress absolves their own sloth. Likewise, anti-globalists on Capitol Hill are happy to see agonized good-faith sloth among Doha negotiators, making any sloth on their part seem inconsequential.

Meanwhile, some Democratic Members who believe in the power of trade against poverty are working with the Administration to hash out a workable compromise on what a new TPA might look like. Representative Charlie Rangel (D–NY), Chairman of the Ways and Means Committee, is leading the effort to carve out common ground. This effort is commendable.

But for those who promote economic freedom, the entire spectacle is somewhat deceiving. Free trade is dead, living on in policymaking as a euphemism for *conditional* trade deals. "Yes, Peru, Americans will trade 'freely' with your citizens *on the condition* that you do X, Y, and Z." This is not the American way; conditional interstate commerce among the United States was made unconstitutional in 1789 precisely because the Founding Fathers recognized the pettiness and gross inefficiency of protectionism.

Paulson Calls Out Protectionism. Sensing this bipartisan slide toward protectionism, Treasury Secretary Hank Paulson has responded with very principled arguments in favor of American openness. Paulson started calling a spade a spade in his first speech as Treasury Secretary on August 1, 2006, in which he said of protectionism, "Sadly, I have seen this mindset paralyze the Doha round of global trade negotiations."

Exactly seven months later, Paulson gave an even harder hitting speech before the Economic Club of Washington:

> Despite our healthy economy and rising living standards, more and more Americans seem to doubt that trade brings greater benefits than costs. Some politicians from both parties, reflecting what they are hearing from their constituents, are moving further toward embracing protectionism. This is a worrisome trend. And it is a trend we must resist.

A number of Secretary Paulson's vital points bear repeating:

- "Our dynamic economy…does create dislocations and anxiety." However, trade should not be the "scapegoat" for that anxiety because "the global economy is here to stay."
- "More than 57 million Americans are employed by businesses that engage in international trade." Losing jobs to China or NAFTA was and is a bogeyman, especially in light of the more than 7 million new payroll jobs created since mid-2003.
- Imports are good for the U.S. economy. "[L]imitations on imports do not benefit the vast majority of Americans. They deny people the freedom to choose from a broader array of goods and services, and impose a cruel tax on people who rely on low prices to stretch their family budgets."
- American wages are thriving, not declining. "Globally engaged U.S. multinationals on average pay their employees about 20 percent above the national average."
- American industry is thriving, not declining. "America is the world's number one manufacturer, accounting for more than 20 percent of worldwide manufacturing value-added—that's more than Japan, twice as much as Germany, and more than 2.6 times as much as China. We manufacture more today than we ever have in our history—seven times as much real output as in 1950, with about the same number of workers."
- America needs to rethink the way it categorizes workers. "Service industries, which account for 80 percent of employment in America, [include] our ten highest paying industries." It is high time official statistics refine the employment category "Service" with narrower

categories, such as "knowledge," "trade," "health," and "government."

The Global Economy Is Here to Stay. Every year, global economic integration deepens. Inaction in promoting new agreements will not slow the growth of trade, only the acceleration of the growth of trade. Trade flows have been expanding for centuries, long before preferential, multilateral arrangements existed.

Yes, increased trade via the WTO would be more grease for the machine of growth. A deal on the Doha round would be worth billions for U.S. prosperity and for development worldwide. But a larger test is whether the U.S. becomes actively protectionist with the passage of targeted tariffs aimed at "currency manipulators" or "non-marketing economies" (NMEs). These are dangerous policies, and one can only hope that support for them—in all parties—is still in the minority.

The largest trade deficit in American history occurred just last year, when imports of goods and services exceeded exports by $763.6 billion. As a percentage of GDP, this measured 5.8 percent, the same as the year before. Contrary to the naysayers' fretting, there is no harm in a high trade deficit. Jobs are plentiful, unemployment is low, and American productivity is the envy of the world. Indeed, many economists believe the goods deficit is a consequence of America's investment surplus and will only recede when America becomes less friendly to entrepreneurship. None other than Ben Bernanke, the Federal Reserve chairman, suggested this direction of causality with his "global savings glut" theory.

On March 9, 2007, the government reported that the January trade balance had narrowed slightly from the month before—exports up by one and a half billion, imports down by one billion. But is this an improvement? As Secretary Paulson remarked, "The last time we ran a trade surplus our economy was in recession."

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