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An Act to End Trade

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On June 24, 106 Members of Congress introduced the Trade Reform, Accountability, Development and Employment (TRADE) Act (H.R. 3012) as the vehicle for reshaping U.S. trade policy. Mandating additional reviews of current and potential trade agreements and adding a multitude of new exceptions, regulatory barriers, and other requirements, the act, if implemented, will effectively bring to a halt the free flow of goods and services into and out of the United States—hurting U.S. consumers and exporters alike.

Though cloaked as a measure designed to "ensure that trade is fair for our workers and economy,"[1] in reality such "fairness" means special breaks and government handouts for the politically connected and powerful, with the rest of America paying the bill. The real intent of the legislation is clear: to erect costly, protectionist walls around America's economy. In the process, it is likely to sound the death knell for the international trade system as a whole.

Open Markets: A Vital American Interest. As a consequence of more than six decades of trade liberalization, the United States has become the central and critical player in the global market, serving as a principle consumer and producer of goods and services flowing around the world. This trade has bolstered U.S. investment, jobs, economic growth, and prosperity. Trade accounts for about one-third of U.S. GDP, and open markets are vital to America's well-being. The proposed interventions of the TRADE Act would end openness by:

- Granting an unfair competitive advantage to the special interests that lobby the hardest for protection, demanding onerous—and likely unfeasible—concessions from America's trade partners; and ultimately
- Eroding the rules-based system of trade that has lifted millions from poverty and driven economic growth in the U.S. and elsewhere.

The legislation would reduce America's presence in international commerce and hurt workers and businesses in all nations—including the U.S.

Rather than embracing protectionism in a misguided attempt to promote "fair" opportunity, policymakers should preserve open markets and instead redress the factors that produce less competitive firms and workers. High U.S. corporate tax rates, complex and inefficient retraining and jobs programs, costly regulations, weak protection of property rights, and direct and indirect subsidies are only some of the policy failures that bar many from a "fair" chance to succeed.

Free trade is one of the greatest economic engines of change, inspiring innovation and bolstering growth. By keeping America open to trade, Congress can ensure that U.S. workers, consumers, and companies really get a fair shot to earn and keep their place at the top of the global marketplace.

Revamping U.S. Trade Agreements. As of the beginning of 2009, the U.S. has 11 free trade agree-

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ments (FTAs) with 17 countries.[2] Though not all of the agreements have been fully implemented, the U.S. has already seen impressive results from these bilateral trade deals. In 2008, the FTAs in force accounted for more than $1 trillion in two-way trade, which is about 35 percent of the total of U.S. trade with the world.[3] Along with the economic benefits of the agreements, the FTAs bring strengthened political relationships with strategic allies around the world.

Proponents of protectionist measures such as those in the TRADE Act paint a dire picture of trade's impact on the U.S. economy, pointing to factory closures and lost jobs. That picture is a lie. Economy-wide, international trade accounts for only about 3 percent of annual job losses, and in most years the U.S. economy overall continues to create more jobs than it loses.[4]

Far more important in changing the composition of America's workforce have been improvements in technology and shifts in consumer preferences. The combined impact of innovation and reduced barriers to trade has served to help the economy, not harm it. Today, more than 57 million Americans are employed by firms that engage in international trade.[5]

While production may fall in less competitive industries, exporters and domestic producers that use lower-cost imported inputs gain a competitive boost that promotes investment, productivity, and growth in these industries. Lower prices for imported goods also help households stretch their incomes, enabling them to buy more of everything, including goods and services that are produced domestically. With freer trade, resources flow from less competitive uses to more competitive and efficient uses, creating opportunity and bolstering long-run economic growth and job creation.

The TRADE Act would compromise all of these benefits by:

- Mandating reviews and renegotiations of trade agreements that fail to meet a laundry list of new regulatory requirements and other metrics;
- Requiring congressional participation in every step of the trade agreements process, from selecting potential partners to setting mandatory negotiating objectives;
- Mandating that trade agreements include and legally enforce, in both the U.S. and partner country, a host of new standards, including voluntary core ILO labor standards and strict U.S.-style food and product safety regulations, while loosening restrictions against government intervention in services and agriculture, domestic preferences in government procurement, protection of intellectual property rights, and carving out exceptions for national security, subsidies, and unilateral action against perceived dumping and other unfair practices; and
- Eliminating the expedited consideration of a negotiated trade treaty.[6]

1. Press release, "106 Members of Congress Introduce TRADE Act; Promote a Better Trade Model," Congressman Mike Michaud, June 24, 2009 at *http://www.michaud.house.gov/index.php?option=com_content&task=view&id=711&Itemid=76* (June 28, 2009).
2. United States Trade Representative, "Free Trade Agreements," at *www.ustr.gov/Trade_Agreements/Bilateral/Section_Index.html* (June 28, 2009).
3. Based on calculations using data from the TradeStats Express National Trade database, at *http://tse.export.gov/ITAHome.aspx?UniqueURL=02dxjrynb2mvcgerd5jd2k55-2008-4-9-3-22-49* (June 28, 2009).
4. Daniel Griswold, "Trading Up: How Expanding Trade Has Delivered Better Jobs and Higher Living Standards for American Workers," Cato Institute, October 25, 2007, at *www.freetrade.org/node/782* (June 28, 2009). Similar results were derived on 2003 jobs statistics in Erica L. Groshen, Bart Hobijn, and Margaret M. McConnell, "U.S. Jobs Gained and Lost through Trade: A Net Measure," Federal Reserve Bank of New York, August 2005, at *www.ny.frb.org/research/current_issues/ci11-8/ci11-8.html* (June 28, 2009).
5. Council of Economic Advisers, *Economic Report of the President 2007*, p. 169, at *www.nber.org/erp/2007/2007_erp.pdf* (June 28, 2009).
6. Trade Reform, Accountability, Development, and Employment Act of 2009. H.R. 3012. 111th Cong., 1st Sess., at *http://www.govtrack.us/congress/billtext.xpd?bill=h111-3012* (June 28, 2009).

In addition to holding trade agreements hostage to every populist whim of Congress, the proposed legislation also seeks to force America's trade partners to adopt U.S.-style regulations and other policies that could be costly and inappropriate for their own economies or else lose the benefits of a trade agreement. Moreover, the TRADE Act could be used as a back door to increasing U.S. regulation of labor, health, food, product safety, environment, and other laws without transparent debate.

Introducing more stringent regulations into trade agreements will not make trade "fairer" for America. Instead, it will unfairly penalize American consumers and more efficient producers to benefit uncompetitive firms unable to survive the marketplace without government assistance. America cannot afford to abandon open market policies.

The major economic benefits of free trade derive from the differences among trading partners, which allow any country embracing world markets a chance to become competitive. Free trade is fair when countries with different advantages are allowed to trade and capitalize on those differences.

TRADE Act Is Not the Answer. While it is certainly the case that America's trade agreements can always be improved, that does not mean they are broken. Indeed, reopening them is most likely to break them: Should the U.S. demand to reopen NAFTA or other agreements as a means to pull back from previous market access commitments, then it is fair to expect that America's trade partners will retaliate with protectionist demands of their own.

U.S. trade agreements do not need to be renegotiated to make them better. Because it is clear that economies evolve over time, NAFTA and the other agreements have working groups and formal committees designed to continuously ensure that the rules of trade defined in the agreements work effectively for all parties. More can be done to help U.S. families, workers, and businesses by vigorously supporting these efforts to keep trade free in the face of changing economic conditions than by opening them to an onslaught of special interest demands for protection and weakening the rules-based system of international trade that has served the U.S. so well.

The best approach to ensuring that America continues to reap the benefits of international commerce is one that is based on a solid commitment to advancing trade liberalization—not one that undermines it. Without this commitment from the U.S., the pressure for erecting barriers to trade and investment will build in many countries, creating the real potential for a costly contraction in global trade and world prosperity. Perhaps even more important, advancing trade liberalization signals to the rest of the international community that the U.S. will not abandon its world economy by turning inward but remain committed to providing the global leadership and vision needed to bolster its economic recovery and growth in the long term.

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